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The Hardest Sell: Free Trade Collides With Protectionism

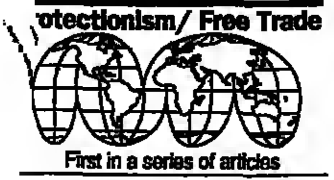
By Reginald Dale
International Herald Tribune

The cause of free trade has probably never had as many advocates as it does today. Yet in many areas around the world, it is under threat from protectionist forces.

Last week, 103 countries representing most of the non-Communist world met in Montreal to try to give new impetus to the international drive to open markets and expand world trade. All of them believed, or said they believed, that their best interests would be served by freer trade.

Nearly all of them called for determined new efforts to thwart protectionism.

"Either we move ahead resolutely towards a freer and more effective multilateral trading system," said Prime Minister Brian Mulroney of Canada, "or we slip backwards toward more insidious forms of protectionism."



Protectionism/ Free Trade
First in a series of articles

But the officials *ignored* their own warnings and let the Montreal talks collapse. Unless they can get the locomotive of free trade on track again in the coming months, the "slip backwards" may already have begun.

With mutual suspicion so intense around the world, and each trader ready to hit back at the first sign of protectionism, real or imagined, the free-trade forces had hoped for the opposite signal from Montreal.

In much of the world, particularly in the booming, export-led economies of East Asia, there is a widespread concern that the Americans and Europeans could be tempted to form defensive, regional blocs.

Japan, in particular, suspects that the European Community's single market after 1992 could, despite good intentions, become a "Fortress Europe" that would at least partly exclude competitors.

Last month Japanese officials were shocked by a demand from Karl-Heinz Narjes, a vice president of the EC Commission, that Japan pay retroactive compensation to European exporters for having kept them out of its markets for years.

Although Mr. Narjes's comments were quickly disowned by his colleagues in Brussels, the outcry that followed showed how jittery the Japanese have become about European trade policies.

Other signals have come from France, where Defense Minister Jean-Pierre Chevènement last month attacked the idea of a free-trading Europe that is open to its commercial partners, and called for new customs duties — already under consideration in Brussels — on imports of military equipment.

With France fighting to restrict imports of Japanese cars made in Britain, Jacques Calvet, the head of Peugeot SA, called recently for a tightening of such controls. Unless Europe takes a strong and united *stand to protect its auto industry,*

See TRADE, Page 5

In Leninakan, a Frantic Search for Signs of Life

By Robin Lodge
Reuters

LENINAKAN, U.S.S.R. — The cries for help from beneath the rubble have almost stopped and the smell of decomposing bodies fills the air in Leninakan.

Four days after the earthquake, *coffins are stacked* along the streets of what used be a city of 290,000 people, waiting for the bodies dug out of the debris.

Half the city, the second largest in the republic of Armenia, is a heap of rubble and twisted metal. *About 120 large apartment build*ings have all but disappeared.

A nine-story building close to Leninakan's central square is now a 12-meter-high (40-foot-high) mound of rubble and twisted steel. Remnants of clothing, curtains and mattresses dangle grotesquely in the air.

Leninakan suffered some of the worst damage in Wednesday's earthquake.

At least 1,500 people have been pulled out alive from the wreckage, many with the help of foreign rescue teams and search dogs. But the number being saved has dwindled.

One rescuer said, "Until yesterday we could still hear voices; now, nothing."

Hundreds of people were still clambering over the debris, tugging with bare hands at chunks of concrete, steel girders and splintered timbers in attempts to reach anyone who might still be alive.

"Over there near the top, they found seven people alive," said one man, his eyes red-rimmed with exhaustion. "They are going to get them out now." Fifty people were poking frantically at the top of the pile.

The faint voice of a woman could be heard, from deep in the rubble. "No, we can't see any light," she said, "but we can hear you."

But in most parts of the city *people said voices that had cried* out since the first few minutes of the disaster had now fallen silent.

"I've been working here solidly for all five days," said Anton Sukisikanyan, a crane operator. "In that time we've brought out 23 people alive. I don't want to talk about how many bodies, but there were 280 people in this building."

From the ruins behind him, smoke billowed from underground fires, adding an acrid smell to the odor of corpses.

Rescuers, many of them overcoming personal grief, said their equipment was inadequate and that they had not been properly organized.

"Things are a bit better now but at the beginning there was nothing — no cranes, no cutting gear, no lights, nothing," said Lernik Yeremyan, who was leading a team of volunteers. "Just 60 people standing up there and yelling at each other."

Since the disaster, 150 cranes have been brought in to the city, but most appeared too small to do more than nibble at the mountains of shattered masonry.

A UN relief official, Sverre Kilde, described rescue work as chaotic, but said this was to be expected.

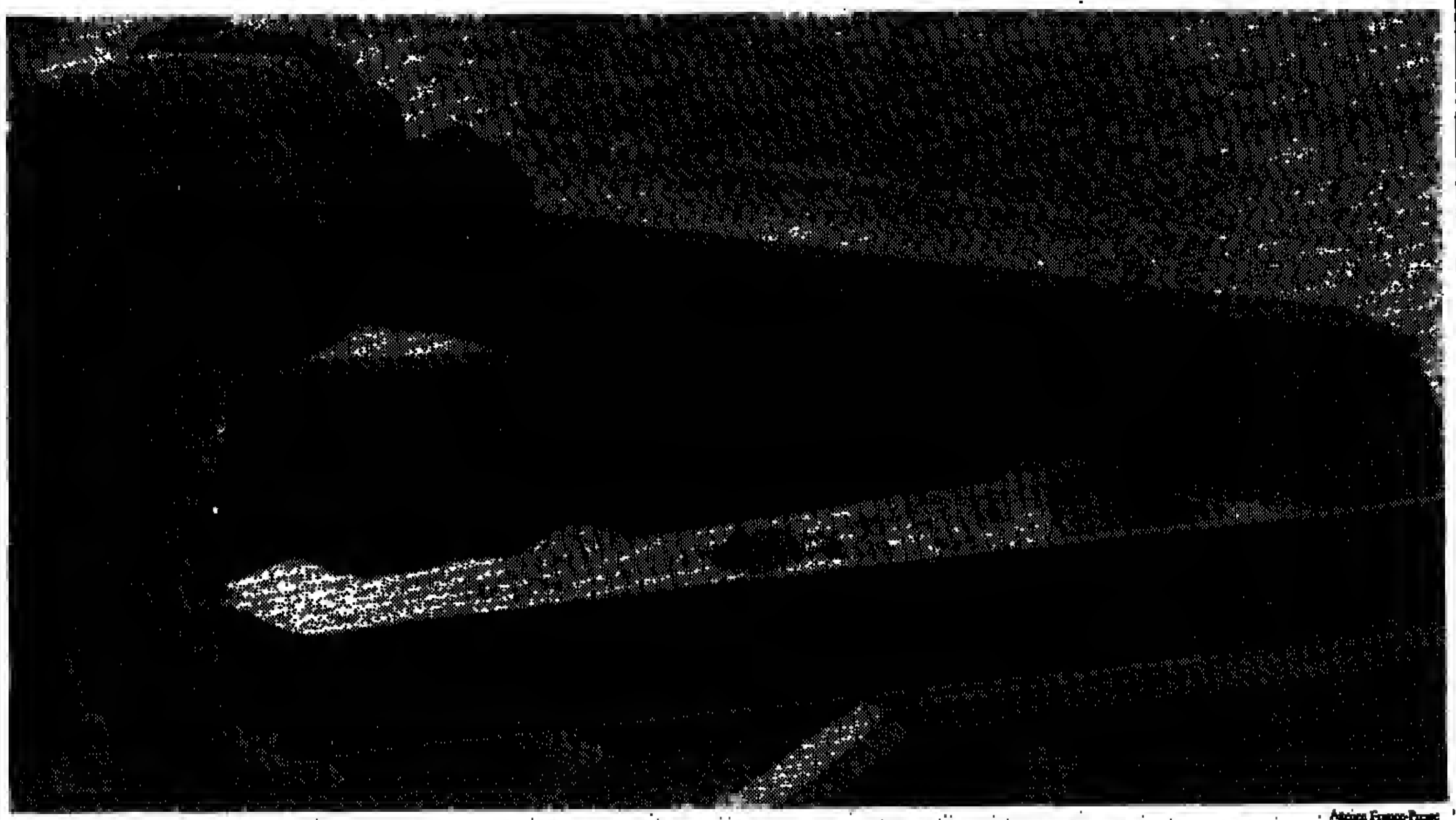
"You have to remember," he pointed out, "that many of the people joining the rescue operation are also the victims."

Leninakan's mayor, Emile Kirakosyan, said he had lost his entire family of 15. "I have no home or family," he said, his voice breaking. "My wife, grandsons, everyone. They're all gone. I must just keep working."

"I left here ten minutes before it happened," said another man. "I came straight back and found my wife and mother dead."

Residents said there had been three or four major shocks. The first, and strongest, lasted about two minutes.

"There was a loud humming noise," Gevork Shakhnazaryan said. "Then steam burst out of the ground, buildings began to rock like boats and it was as though the earth was boiling."



Agence France-Presse
A survivor of the earthquake in Armenia looked into coffins placed on the sidewalk in central Leninakan in the hope of identifying a relative.

Armenian Relief Is Hindered

Supplies Slowed, But Gorbachev Defends Efforts

Compiled by Our Staff From Dispatches

LENINAKAN, U.S.S.R. — Rescuers struggled with a lack of equipment and poor organization Sunday to free a dwindling number of survivors trapped in mountains of concrete and twisted metal after the earthquake here.

President Mikhail S. Gorbachev, in a confrontation with earthquake victims who bitterly criticized the relief operations as inadequate, defended rescue efforts and said that the entire country had mobilized to help the injured and homeless and to save lives.

The earthquake, which struck Wednesday, killed at least 45,000 people and left half a million homeless and thousands seriously injured.

"I have been shaken by everything I have seen in these two days," Mr. Gorbachev said on Soviet television. "It is simply difficult to bear this in human terms. It is unbearable."

Meanwhile, in an interview in Yerevan, the Armenian capital, Mr. Gorbachev assailed those who would use the dispute between Armenia and Azerbaijan over the region of Nagorno-Karabakh "for their unseemly purposes."

"Everyone must know what kind of people they are," he said. "They are bursting to seize power and they must be stopped."

Mr. Gorbachev and his wife, Raisa, were shown consoling survivors and speaking with rescuers in Spitak, a city of 16,000 that was virtually destroyed by the earthquake, and in Kirovakan 16 kilometers (10 miles) to the east.

"Why didn't the seismologists warn us," a Spitak resident demanded during an exchange shown on television.

"Nowhere in the world have they mastered that," Mr. Gorbachev responded.

"Why don't rescuers help?" another resident asked. "They are all over the place, running in different directions."

The Soviet leader responded that, "the whole country has risen to help."

"In these conditions," he said, "all have mobilized, doctors are operating to save lives on the site."

In Leninakan, with a population of 250,000, mountains of concrete and metal rubble filled the city, indicating where many of the newer, multistory prefabricated apartment houses had collapsed.

Many older, one- and two-story buildings nearby had been left unscathed.

The mayor of Leninakan, Emil Kirakosyan, said that recently constructed apartment buildings had not been built to withstand such a severe jolt, even though the city is

See ARMENIA, Page 5

Regionalism Is Eroding Central Power in China

By Nicholas D. Kristof
New York Times Service

BEIJING — Nearly four decades after the Chinese Communist Party abolished local fiefdoms and united China under a strong central government, the country is again facing a serious challenge from regions that compete with each other and ignore commands from Beijing.

Even the Chinese authorities acknowledge that, in an incalculable and perhaps irreversible consequence of the country's 10-year-old policy of change, the central government has lost power to the provinces.

This new regionalism is fundamentally changing the way China operates and is one reason for China's economic retrenchment of the past few months.

"China today is divided into more than 20 independent kingdoms and more than 2,000 fiefdoms," the officially sponsored China Economic News warned last month in a front-page commentary, referring to the provinces and counties.

A Japanese diplomat in Beijing said of the regionalism, "It's the most serious problem the Chinese leadership is facing today."

The economic liberalization of the last decade has been a tremendous boost to China's standard of living, but it has also meant that the central government simply lost control over parts of the economy.

This year, partly because of profligate capital spending by local authorities, industrial growth is running about 20 percent instead of the planned 8 percent. And money supply growth will be close to 50 percent instead of the planned 17 percent.

The government is trying to reassert control, but it will be a struggle. Last month, for example, Beijing announced that to save scarce resources, manufacturers of soft drink cans must immediately cease production. More than 1,400 miles (2,200 kilometers) to the south, in Guangdong Province, the order does not appear to be enforced.

"We're continuing to make the cans," a manager of the Three Waters Soft Drink Can Co. said.

Qiao Shi, one of the Communist Party's senior leaders, fumed in a recent report: "Some localities and departments, disregarding orders from the center, have gone their own way. They blindly vie with each other to build office buildings, auditoriums and guest houses, they have continued to expand the scale of unbudgeted construction projects, indulge in extravagance and waste, and indiscriminately distribute presents and bonuses."

If the regionalism problem is not corrected, Mr. Qiao continued, "the entire nation will then be in chaos."

On the narrow road from Jiangsu Province into Shanghai, amid a mayhem of bicycles and cars and livestock, an inspection center at the provincial border

See CHINA, Page 5

For CIA, Glasnost Spells a New Set of Challenges

By Stephen Engelberg
New York Times Service

WASHINGTON — William H. Webster, the director of central intelligence, says that Mikhail S. Gorbachev poses a challenging *paradox for the thousands of offi*cials who collect and analyze information on the Soviet Union, traditionally viewed as the most difficult target in the espionage business.

The Soviet president's policies of *glasnost*, or openness, have given the CIA unparalleled opportunities to gather intelligence by both open and clandestine means.

But at the same time, Mr. Webster said, the agency faces new problems in advising the president about how to anticipate and respond to initiatives from a Soviet leader whom the CIA analysts regard as innovative and unpredictable.

In his first interview since his selection as the Bush administration's intelligence chief, Mr. Webster said that the agency faced a severe budgetary strain.

At the same time, he said, the CIA is facing an increased demand for information on the Soviet Union as well as growing demands to play a role in combatting the drug traffic, an initiative backed by both President Ronald Reagan and President-elect George Bush.

Although avoiding specifics about new sources of information from the Soviet Union, Mr. Webster said the intelligence agency had hoped to draw on "nontraditional clandestine sources," such as people who frequently visit the country.

In regard to Mr. Gorbachev's ability to seize world attention with moves such as his unilateral troop reductions, which Mr. Webster said the CIA had anticipated, the intelligence chief said part of his work in the new administration would be helping Mr. Bush keep a step ahead of the Soviet leader.

"We're learning to anticipate that," he said of Mr. Gorbachev's penchant for surprises. "It's part of his style to keep the free world on the so-called reactive role. Intelligence has a role in identifying opportunities for our country to take the initiative when it should be taking the initiative.

"We have to be careful," he said, "that we are not policy advocates. Sometimes, the identification of opportunities can appear to be advocating a particular kind of cause. We don't want to do that."

In saying this, Mr. Webster was clearly responding to Mr. Bush's announced plans for the CIA as an agency that closely advises the president but does not pursue its own agenda.

In the interview on Friday at his office at Langley, Virginia, Mr. Webster also made these points:

● The intelligence agencies must find a way to pay for the next generation of surveillance satellites and make use of new technological developments under significantly tighter budgets than those of the Reagan years.

● The CIA remains opposed to legislation, expected to be reintroduced next year, that would require the agency to tell Congress about all covert operations within 48 hours. Mr. Webster asserted the Reagan administration's new rules, which require senior officials to review every 10 days any decision to keep operations from Congress, are enough to prevent repetition of the Iran-contra affair.

● Responding to the mostly anonymous criticism of his work habits that arose in the weeks that Mr. Bush deliberated over his appointment, he said of the attacks: "None of us enjoy it, but we all survive it, and try to do better, if only to prove the criticisms wrong."

Mr. Webster said that the CIA was "getting far more material now, as a result of glasnost, to analyze and sort out, including things that may be included in glasnost that they want us to hear, as distinct from things that we need to know or things that might not otherwise be available to us."

"Some of glasnost opens up new concepts of intelligence collection," Mr. Webster continued. "We're getting important information from nontraditional clandestine sources who have better access to some of this information than the traditional espionage activity would have."

Asked whether he was referring, in part, to the Soviet Union's decision to allow more technical delegations into the country, Mr. Webster replied, "That's right," adding that the material of this sort has sharply increased.

78 on Soviet Military Flight Killed in Quake Aid Mission

The Associated Press

MOSCOW — A Soviet military transport plane carrying soldiers to help victims of the Armenian earthquake crashed Sunday, killing 78 people aboard, Tass reported.

The official news agency said the plane, an Ilyushin-76, crashed as it approached the airport in Leninakan, a northern Armenian city near the earthquake's epicenter.

An Armenian Foreign Ministry official, Vartan Voskanyan, said airport authorities told him the plane went down after hitting a helicopter near the airport, where scores of aircraft have been bringing in relief equipment.

Mr. Voskanyan, speaking in Yerevan, the Armenian capital, said he had been informed of the crash by airport officials. He did not know the helicopter's fate.

Tass initially reported the crash, but did not say what caused it or what time of day it took place.

Nine crew members and 69 soldiers were killed in the crash, Tass reported. It did not say how many people were aboard the wide-body plane and provided no further details. The report was in the form of a message of condolence from the Communist Party Central Committee and government.

Jane's All the World's Aircraft, a British reference book, says the Ilyushin-76 is designed to land on short airstrips under difficult weather conditions.

Chaos in Quake Makes Death Toll Uncertain

Compiled by Our Staff From Dispatches

MOSCOW — Reports on the death toll in the earthquake that struck Armenia have varied from day to day, and these changes have been reflected in the reporting of Western journalists.

On Saturday, Health Minister Yevgeni I. Chazov told representatives of government relief commissions that he believed that about 50,000 people had been killed, according to Stepan K. Pogosyan, director of Armenpress, the official press agency in the Soviet republic of Armenia.

Armenpress had previously reported the *death toll as being as high as 100,000, as had* other official Soviet sources who asked not to be named.

Mr. Chazov himself, according to the weekend edition of Le Monde, had put the total of dead and missing at 100,000.

The Soviet authorities have said that the chaos caused by the earthquake and the rescue efforts hampered their ability to judge the exact scope of the disaster.

Other Soviet officials said Saturday at a news conference in Moscow that the official toll provided by the government, at least 45,000, was a preliminary estimate and would probably increase as the rubble was cleared.

But they said the higher figures that had been mentioned last week, ranging up to 100,000 deaths, appeared unfounded, at least for the moment.

On Friday, the Soviet ambassador to Britain, Leonid M. Zamyatin, put the toll at about 80,000 dead and 2.5 million homeless. (*IHT, Reuters, NYT*)

Kiosk

Plane Downed, Afghans Say

ISLAMABAD, Pakistan (Reuters) — Kabul radio said on Sunday that Pakistani jets shot down an Afghan transport plane in eastern Afghanistan, killing 25 people. No Pakistani comment was immediately available.

Kabul radio said the plane was attacked by Pakistani Air Force planes on Saturday night as it flew from the border town of Khost in Paktia Province to the capital, Kabul.

MONDAY Q&A

Reuters

Mitsuo Sato, managing director of the Tokyo Stock Exchange, discusses fundamental changes in the Japanese market. Page 2.

General News

In the U.S. tax debate, talk of shifting the burden. Page 4.

Business/Finance

Daewoo offered to sell five subsidiaries to save its shipbuilding unit. Page 11.

Personal Investing

Investors, concerned about the U.S. deficit, are cautious on U.S. markets. Pages 7-10.

The Only Way Out of Kabul Is Up

By Henry Kamm
New York Times Service

KABUL, Afghanistan — In a city that fears the future, the privileged few, those who have the money for an air ticket, are looking for ways out. The exit options have been reduced to one — a place on one of five weekly flights, heavily overbooked, to New Delhi.

One day recently, the Indian ambassador had to go out on the street in front of his chancery to calm the large, nervous crowd of visa seekers that has been gathering there daily. Afghan soldiers, sometimes with fixed bayonets, were keeping their fellow citizens in line.

The ambassador assured them that all applications would be received, but that his staff was not big enough to cope rapidly with the daily flow of requests.

Diplomats said that most of the visa applicants were not would-be refugees but people who would like to wait out the next few months in a safe place before deciding where their future lies.

Last week the U.S. Embassy, down to 14 people rattling around a large, mostly empty building and including Marine guards and communications technicians, stopped accepting visa requests.

It ceased issuing visas some time ago, but as a kind of placebo it gave applicants a letter to the embassy in New Delhi certifying that the person had applied in Kabul. But on Nov. 30, a Wednesday, the only day of the week on which visa seekers were received, their number rose to 279, and there were not enough staff members to handle the crowd. At the beginning of the year, the weekly total had averaged five.

West European embassies, too, have either stopped issuing visas or are considering doing so. The crowds of those who would like to leave have become too large for the remaining embassy staffs.

Western embassies and UN agencies now are asking themselves the hard question on whether to remain indefinitely or to close down before the scheduled deadline for the completion of the Soviet troop withdrawal on Feb. 15. Among the possibilities of what might follow the removal of the Soviet Army, which has ironically become the main guarantee of such stability as exists in this jittery capital, total chaos looms large.

Officials at embassies note that virtually all visa applicants are from Kabul; there is no longer a safe road allowing Afghans from the provinces to reach the capital.

Indian Airlines, which until last month flew the New Delhi-Kabul route, has halted its flights "for the time being." Its crews refuse to fly to Kabul for several reasons — rocketing of the airport by guerrilla forces, excessive traffic on a field shared by civil airlines and the Soviet and Afghan Air Forces, and what appears to be a near-absence of traffic control and separation of air channels.

Now only Ariana, the Afghan airline that was once a subsidiary of Pan American World Airways, and Aeroflot, the

See KABUL, Page 5

In Hanoi, a Postmortem on War

By Keith B. Richburg
Washington Post Service

HANOI — American and Vietnamese historians recently completed their first scholarly conference on the Vietnam War, and the U.S. participants said they had learned new information about North Vietnamese casualties, China's role in aiding the Communists and other significant issues.

The scholars said the Vietnamese had acknowledged tremendous losses suffered by the Viet Cong as a result of the Tet offensive in 1968, which Americans regard as the psychological turning point of the war. They disclosed that after the offensive the North had needed time to rebuild its depleted ranks.

The Vietnamese participants at the conference also said that they believe President Richard Nixon made a tactical error by expanding the war into Cambodia and Laos, as it diverted U.S. attention and gave the North time to build up its forces.

In the 1968 battle at Khe Sanh, during which American troops suffered heavy casualties, the Vietnamese disclosed that they had committed three full divisions to the fight to pin down a single U.S. division.

They also acknowledged for the first time that U.S. bombing of the Ho Chi Minh Trail had been more effective and had produced far greater casualties than had previously been believed in the United States.

The Americans said they learned that China had played a bigger role in the war than previously thought.

The three-day session was held in November in Hanoi.

The American scholars said they were surprised that the Vietnamese participated in the conference because Hanoi in the past had been guarded in discussing its conduct of the war. It has rarely discussed the extent of Communist casualties, disputes within the North Vietnamese leadership over war tactics, or disputes between Hanoi and its major backers — the Soviet Union and China — and between Hanoi and its allies in South Vietnam, the National Liberation Front, known as the Viet Cong.

Vietnam's new readiness to discuss details of the Communist war effort appears to be part of Hanoi's Soviet-inspired policy of "openness," as the leadership tries to present a modern face to the West.

The process has included an effort to shed a tradition of secrecy and suspicion of outsiders when discussing internal policies.

The Vietnamese delegation was led by General Hoang Phuong, director of the Institute of Military History. The participation of high-ranking officials from the institute, as opposed to university professors, suggested that Hanoi was serious about having the American panel meet some wartime decision-makers. Most of the Vietnamese participants

See VIETNAM, Page 5

The Tokyo Stock Exchange: An Increasingly Global View

As managing director of the Tokyo Stock Exchange, Mitsuo Sato has helped guide the market through a period of fundamental change, both domestically and in its ties to other exchanges. After a 30-year career in the Finance Ministry, Mr. Sato took charge of member firms and international relations two years ago. He spoke with John Vinocur, the International Herald Tribune's executive editor, and Tokyo bureau chief Patrick L. Smith.

Q. How extensive is the TSE's cooperation with other markets, New York and London in particular, and how important is it that internationally accepted regulatory standards be established as they are being established in banking?

A. Ties are becoming both more extensive and more intensive. We have quite a few meetings with the New York Stock Exchange to share information, not only for regulatory purposes but also on the kind of crisis we had a year ago.

We also have a multilateral forum, the Fédération internationale des bourses de valeurs in Paris, through which we can extend cooperation among exchanges. Finally, we are strengthening ties between futures and options markets and ourselves, including a surveillance agreement we recently concluded with the Chicago Board of Trade.

Q. How does the equity market fit with Japan's broader effort to deregulate the financial sector? The money markets seem to be deregulating while the stock market is going in the opposite direction.

A. The stock market can be said to be moving parallel with other markets in

MONDAY Q&A

terms of liberalization, deregulation or internationalization. I would mention in this connection the opening of exchange membership to foreign firms in 1985. We now have 22 foreign members, 20 percent of total membership, which is much higher than our counterparts in New York. London is the only market with a higher foreign component.

Q. There are 45 foreign brokers here, 22 with seats. What is the future for these firms?

A. This year we had 20 foreign applicants for membership, of which we admitted 16. I'm quite sure the remaining four will have seats in the next round.

•

Q. An obvious concern internationally and domestically is the insider-trading issue. How far will new regulations go in this matter and where will the emphasis lie: Self-regulation among firms, governance by the TSE or by the Finance Ministry?

A. In my view we have two tasks. One is an institutional arrangement, including legislative provisions from the Finance Ministry so that we can investigate and prosecute insider traders and finally impose penalties. More practically, we have to erect "Chinese walls" and encourage timely disclosure among listed companies. The TSE is giving this much more emphasis in enforcing the rules.

Personally, I think the most important thing is to recognize that in Japan we should place more emphasis on social pressure and social sanctions. We are not individualistic, but collectivist. We emphasize consensus behavior, and we should take advantage of this kind of psychological climate.

Q. You brought us to the next question. A cultural dimension is important in any stock market. Do you see Tokyo as essentially Asian in character, or is it a global market?

A. The securities markets are not alone in facing this question. Everyone in Japan is facing it. As to the market, we need to place more emphasis on globalization simply because the Tokyo exchange is now the world's largest. We are an inward-looking people, so without a conscious effort to globalize our mentality, we will not succeed.

•

Q. Are you satisfied with the pace at which this process is proceeding?

A. Situations change gradually. If you're asking if I'm completely satisfied, my answer is no, but we are striving.

Q. Large brokers such as Nomura will go to London and be somewhat embarrassed because competitors look upon them as being large by virtue of practices that are not acceptable elsewhere.

A. You're quite right in saying there's at least the perception that Japanese financial institutions are over-representing themselves abroad. I again think the main issue here is the globalization of the Japanese people.

Q. The Recruit Cosmos stock scandal: Has it damaged the Tokyo market's reputation?

A. It hasn't much affected the market, at least up to now; Recruit is an over-the-counter stock, and that market has been damaged to some extent. If the same thing happened with a listed stock, the situation might indeed have been different. We do have to strengthen the confidence of investors in the fairness of this market.

Q. Japan is virtually alone in maintaining a system of fixed commissions.

A. It's going to take time to go to a system of completely negotiated commissions, simply because of the peculiar structure of the securities industry here. We have four big elephants, a small number of dogs and quite a number of mice. If we dared to have a negotiated system, we'd face dislocation and disruption that would ultimately be to the investor's loss.

Q. We've just had reports of declining profits among Japanese brokers. Do you see a period of consolidation coming?

A. Maybe. But profits are down 20 percent or so from last year, when performance was very good — too good, I think. It's a small setback. I see no change in the industry's basic structure.

•

Q. What about the unusual position occupied by the Big Four — Nomura, Daiwa, Nikko and Yamaichi? Are they too dominant in this market?

A. They account for about 50 percent of total transactions. But bigness is not always bad. We can expect good economies of scale and more innovative capacity than when you have very small mice. But of course, we have to watch the situation with regard to, say, commission rates and the liquidity of the market.

WORLD BRIEFS

Protest Strike Shuts Down Gaza Strip

JERUSALEM (Reuters) — Three Israeli soldiers and seven Palestinians were wounded in the occupied territories on Sunday as a general strike was taking place in the Gaza Strip to protest the killing of two Arab activists.

Palestinians in the Gaza Strip stayed away from work and halted public transport to protest the killing on Saturday of a teen-age demonstrator and a detention camp inmate who tried to stab an Israeli soldier.

The injuries occurred as police and troops battled protesters who hurled stones and bottles in Gaza, as well as in the West Bank and in East Jerusalem.

Soviet Plan Might Affect U.S. Missile

WASHINGTON (Reuters) — Mikhail S. Gorbachev's announcement to reduce Soviet forces in Eastern Europe could confound U.S. plans to upgrade a nuclear missile for Western Europe, a congressman said Sunday.

Les Aspin, Democrat of Wisconsin and chairman of the House Armed Services Committee, said that the Congress, in seeking ways to reduce the federal budget deficit, might try to save some money by not funding a planned Defense Department modernization of the Lance missile. The Pentagon to wants to improve the accuracy and range of the aged Lance to let it serve as a shorter-range replacement for some missiles banned under the intermediate-range missile treaty reached a year ago.

Mr. Aspin said there was a plan to put "some starting money" for modernization of the Lance into the 1990 budget and that was "the kind of thing" that the Gorbachev announcement "is going to impact." But he said he did not believe the United States would move immediately to cut its military budget or the number of troops deployed in Europe because Mr. Gorbachev said the withdrawal would take two years.

Paraguay Police Attack Rights March

ASUNCION, Paraguay (AP) — Police attacked hundreds of people with electric prods and riot sticks to prevent them from holding a march to commemorate the 40th anniversary of the Universal Declaration of Human Rights.

Several dozen people were reported injured at the march Saturday, including Rafaela Guanes de Laino, wife of an arrested opposition leader, Domingo Laino, and Ilde Silvero, director of a Roman Catholic weekly, Sendero. Several demonstrators were arrested.

The police prevented people from entering the national cathedral, where a Mass was celebrated before the march, and dispersed a crowd of 300 at the office of the United Nations. The groups were to have marched between the two buildings in central Asunción, an area full of shoppers.

Monk Slain and 13 Injured in Tibet

BEIJING (Reuters) — A monk was shot and killed by the police and 13 persons were injured [illegible] during a protest march in the Tibet for independence, Chinese state television said Sunday.

The report said the demonstrators in the Tibetan capital, Lhasa, ignored warnings from the police on Saturday, who then opened fire. It said that 2 of the 13 wounded had slight injuries, and that one of the injured was a Dutch woman. The television said she had entered Tibet three times as a tourist and "became active after the demonstration began." The report gave no other details. Lhasa was calm on Sunday as the police imposed tight security, Westerners there said.

Papandreou's Legal Adviser Resigns

ATHENS (NYT) — The chief legal adviser to Prime Minister Andreas Papandreou has resigned and a senior banking executive has been arrested in a deepening political and financial scandal. The adviser, George Kasimatis, said Saturday he had submitted his resignation because Deputy Prime Minister Agamemnon Koutsogiorgas had implied that he was involved in the scandal.

Mr. Koutsogiorgas had asserted that a legal and financial adviser close to Mr. Papandreou had said that the business activities of the banker who is at the center of the current crisis were legal. He did not name the adviser. The banker, George Koskotas, 35, fled Greece a month ago to escape trial on fraud and embezzlement charges. He has threatened to reveal the names of Greek officials who he says received money from him.

On Saturday, the police arrested Panos Vakalis, a member of the governing Socialist Party and a former vice president of the Bank of Crete, on charges of being an accomplice in Mr. Koskotas's activities.

For the Record

David Bloom, 24, a Wall Street investment adviser who swindled clients out of $15 million in a fake investment scheme and spent the money on art, luxury homes and cars, was sentenced to eight years in prison on Friday in U.S. District Court in New York. *(Reuters)*

The first military satellite sent into space by Western Europe, the British Skynet 4B satellite, was placed in orbit Saturday by an Ariane-4 rocket launched from French Guiana. The rocket also put into orbit the first privately funded European satellite, Astra, which is to beam up to 16 television channels throughout Europe. *(Reuters)*

A small polyp removed from Ronald Reagan's colon was benign, and the president remains free of cancer and in "excellent health," the White House announced. The tissue was taken from Mr. Reagan on Friday in a procedure that has been done routinely since he first underwent [illegible] cancer surgery nearly three and a half years ago. *(UPI)*

Walesa and Sakharov Discuss Unified Action During Paris Meeting

By Meg Bortin
International Herald Tribune

PARIS — Two unofficial architects of new thinking in Eastern Europe, Lech Walesa and Andrei D. Sakharov, have held an informal meeting that could mark the start of unified action for civil rights in Poland and the Soviet Union.

Brought together by ceremonies in Paris marking the 40th anniversary of the Universal Declaration of Human Rights, the two Nobel Peace laureates met for the first time after Mr. Sakharov knocked on the door of Mr. Walesa's hotel room Saturday and went in for a 45-minute talk.

Mr. Sakharov, who won the peace prize in 1975 for his human rights activities in the Soviet Union, and Mr. Walesa, who became a laureate in 1983 for his work as leader of the outlawed Solidarity trade union in Poland, avoided suggesting that their encounter could forge a new alliance.

But Polish sources said that Mr. Walesa appealed to Mr. Sakharov to use his influence to help Solidarity, and that the two men discussed possible forms of cooperation.

The sources said that Mr. Sakharov had met Mr. Walesa's appeal with a bemused disclaimer of his power to influence Soviet policy.

"You, who head a movement of millions of workers, are asking me for help when I am isolated and alone?" the sources quoted Mr. Sakharov as saying.

Mr. Walesa, on his first trip abroad since martial law was imposed in Poland in 1981, was greeted by hundreds of Poles waving red and white Solidarity banners as he traveled around Paris.

Mr. Sakharov, who was scheduled to return to Moscow on Monday after his first trip to the West, met Sunday with French scientists and friends who supported him during his seven years of internal exile in the Soviet Union.

Both men were guests of honor Saturday at a ceremony at the Palais de Chaillot marking the anniversary of the rights declaration adopted by the United Nations in Paris on Dec. 10, 1948.

Javier Peréz de Cuéllar, the UN secretary-general, who arrived from Oslo after accepting the 1988 Nobel Peace Prize on behalf of UN peacekeeping forces, praised Mr. Sakharov and Mr. Walesa.

President François Mitterrand pledged France's support for all UN work to investigate and publicize rights abuses, "For oppression feeds on silence," he declared.

Mr. Mitterrand, who organized the event in what some saw as an effort to enhance France's profile as a defender of human rights, met separately with Mr. Sakharov and Mr. Walesa on Saturday.

The president later was the host at a dinner whose other guests included Hortensia Allende, widow of President Salvador Allende of Chile; Yelena G. Bonner, Mr. Sakharov's wife; Breyten Breytenbach, the South African writer, and Elie Wiesel, the American writer and another Nobel Peace laureate.

Mr. Walesa also held private talks with Hans-Dietrich Genscher, the West German foreign minister, held at Mr. Genscher's initiative. Polish sources said the meeting was likely to upset the authorities in Warsaw, who have recently sought high-level contacts with Bonn, but without success.

The presence of Mr. Sakharov and Mr. Walesa together in Paris marked a step forward in East European respect of the principles set out in the Universal Declaration of Human Rights, which the Soviet Union and its allies abstained from ratifying in 1948.

Those principles include the free circulation of individuals, freedom from arbitrary detention or exile, freedom of conscience and freedom of speech, freedoms that both Mr. Sakharov and Mr. Walesa have been denied in the past.

Mr. Walesa said upon arrival in Paris that both he and Mr. Sakharov could still feel "the breath of Stalin" at their backs.

He avoided commenting publicly on Mikhail S. Gorbachev, the Soviet president, but a spokesman, Bronislaw Geremek, said that Mr. Walesa had expressed his support for the changes in the Soviet Union during his talk with Mr. Sakharov.

Mr. Sakharov restated his support for Mr. Gorbachev, but also denounced continuing Soviet violations of basic rights.

He notably urged the West not to agree to a proposed human rights conference in Moscow in 1991 before all prisoners arrested for their political or religious convictions were freed in the Soviet Union.

The fact that he made his comments at a press conference at the Soviet Embassy showed the extent to which Mr. Sakharov, 67, has returned to official favor after falling into disgrace in the 1970s for his defense of Soviet dissidents.

The Soviet nuclear physicist won another vote of confidence from the Kremlin by receiving permission to travel to the United States, where he spent the last month.

Mr. Walesa, 45, has yet to receive the blessing of the Polish authorities, although his trip was preceded by a television debate in which he appeared with Alfred Miodowicz, the head of the official trade unions in Poland. Mr. Walesa is an electrician at the shipyards in Gdansk.

Mr. Walesa's last trip abroad was a visit to Paris in October 1981, two months before Solidarity was banned and he was arrested.

Walesa Finds West Lacking Spiritual Values

Reuters

PARIS — Lech Walesa, in Paris on his first trip abroad in seven years, said Sunday that people in the West seemed lacking in spiritual values.

"I've only been here two days, and Paris is very beautiful, but I find no spirituality," Mr. Walesa, the leader of the Solidarity movement in Poland, said after meeting the Roman Catholic archbishop of Paris, Jean-Marie Lustiger.

Archbishop Lustiger said Mr. Walesa told him that Westerners "have wealth and civil liberties but don't seem to believe in anything."

"You have so many computers, why don't you use them in the search for love?" the archbishop said Mr. Walesa asked.

Lech Walesa, left, with Andrei D. Sakharov and Yelena G. Bonner at the human rights anniversary meeting in Paris. Agence France-Presse

After 2 Decades, Prague Allows a Rally

By Jackson Diehl
Washington Post Service

PRAGUE — Thousands of demonstrators celebrating the 40th anniversary of the Universal Declaration of Human Rights cheered opposition leaders and chanted for freedom here in the first independent public rally allowed by Communist authorities in two decades.

"It seems we are living in a dynamic and promising time, and that our society has begun to recover from its long slumber," Vaclav Havel, a writer and leader of the human rights group Charter 77, told about 5,000 people who gathered Saturday in a small square.

"Our government has finally recognized that it has to be more tolerant," Mr. Havel said.

[About 1,000 people demonstrated peacefully Sunday in Olomouc, in central Czechoslovakia, demanding the release of a leading religious activist confined to a psychiatric hospital since October, The Associated Press reported. Czechoslovak police arrested one of the organizers but did not otherwise intervene during the 20-minute gathering in a central square.]

The decision by the Communist leadership to allow the demonstration Saturday represented an abrupt reversal of what has been a tough crackdown against opposition activity in the last few months.

On Saturday, police were deployed in force on the central square of Prague, the Vaclav Namesti, to prevent any repeat of a march by 10,000 persons set off there by a small group of protesters on Aug. 21, the 20th anniversary of the Soviet invasion.

But city officials kept to an agreement worked out with opposition groups last week to allow a gathering in a smaller residential square two subway stops to the east, and uniformed police did not go near the area.

Western diplomats and political activists in Prague said the conservative Czechoslovak leadership had appeared to come under strong pressure from both internal party critics and senior Soviet officials.

Mikhail S. Gorbachev's top foreign policy deputy in the Soviet party, Alexander N. Yakovlev, visited Prague for five days last month and made several public statements that appeared critical of the lack of political openness in Czechoslovakia. Western diplomats said they believed Mr. Yakovlev may have been crucial in bringing about an apparent softening in policy.

The rally Saturday was sponsored by five organizations, including several that have sprung up in the last few months as Mr. Gorbachev's drive has steadily raised popular hopes for change here.

Young leaders of new groups such as the Independent Peace Initiative and Czechoslovak Children mixed with veterans of the Prague Spring movement of 1968, which pioneered liberalization of Soviet-style socialism.

The demonstrators, who stood in a chilly drizzle through the one-hour rally, were led in the Czechoslovak national anthem by a popular singer from 1968 era banned from performing for the past 20 years, Marta Kubisova.

Authorities sought to counter the opposition event with their own official rally Saturday morning at which the Communist-backed National Front established an official human rights committee. The meeting, held indoors in an assembly hall, was attended by about 800 invited guests. Opposition representatives who sought to address the meeting were denied entrance.

■ **Soviet Rallies Broken Up**

Demonstrations marking the 40th anniversary of the Universal Declaration of Human Rights were broken up in three Soviet cities at the weekend and several participants arrested, a Moscow rights activist told Reuters on Sunday.

Yury Mityunov, a leading member of the Democratic Union grouping, said by telephone that the demonstrations took place in Moscow, Leningrad and Saratov on Saturday and in Sverdlovsk in the Urals on Sunday.

According to Mr. Mityunov, 300 people gathered in Pushkin Square for the Moscow demonstration, which authorities had banned on the ground that it would violate the day of mourning declared for victims of the Armenian earthquake.

He said police did not intervene in Leningrad, where there was a one-minute vigil of silence for victims of repression under Stalin.

UN Leader, Accepting Peace Prize, Appeals for U.S. to Pay Its Share

By Paul Lewis
New York Times Service

OSLO — Secretary-General Javier Pérez de Cuéllar of the United Nations has accepted the 1988 Nobel Peace Prize on behalf of the organization's 10,500 peacekeeping soldiers. But he warned that their operations were in jeopardy because of the failure of the United States and other governments to pay their full share of the cost.

During a ceremony Saturday at Oslo University attended by King Olav V of Norway, Mr. Pérez de Cuéllar paid tribute to the half million men and women from 58 countries who have served in UN peacekeeping operations — and to the "733 Blue Helmets who have given their lives in the service of peace."

The secretary-general singled out Lieutenant Colonel William R. Higgins of the U.S. Marine Corps, who was kidnapped in February while on peacekeeping duties in southern Lebanon. Mr. Pérez de Cuéllar appealed for the colonel's release.

The secretary-general said the use of UN peacekeeping forces to separate belligerents, monitor truces and oversee free elections marks the first time in history that "military forces have been employed internationally not to wage war, not to establish domination and not to serve the interests of any power or group of powers."

Foreseeing a "time of extraordinary hope and promise for the United Nations," Mr. Pérez de Cuéllar spoke of a "new determination in the world to move away from international conflict."

But the secretary-general and other politicians and officials warned that the United Nation's ability to preserve peace in areas of conflict was being undermined by its financial difficulties at a time when demands for its peacekeeping services seem likely to increase sharply.

The secretary-general said he feared that the Nobel Peace Prize might turn out to be "a posthumous award" for the United Nations' peacekeeping efforts unless governments show greater willingness to pay for them in future.

"It's not enough to make expressions of admiration and good will for peacekeeping," he said. "We need money as well."

The assistant U.S. secretary of state, Richard S. Williamson, the Reagan administration official responsible for United Nations affairs, recently said that the failure of Congress to appropriate $150 million for peacekeeping activities before it adjourned in October meant that the administration might be unable to pay its share of the beginning costs for a peacekeeping operation planned for southwestern Africa, if an agreement granting independence to Namibia is completed in the next few weeks.

The Nobel Peace Prize, worth about $339,000 this year, was presented on the anniversary of the death of Alfred Nobel, a Swedish industrialist, in 1896. The winner of the prize was announced in September.

The award ceremony, the only one of the Nobel ceremonies held in Norway rather than Sweden under the industrialist's will, was attended by officers and soldiers from the United Nations's seven current peacekeeping operations. These are along the India-Pakistani border, in the Sinai, the Golan Heights, Lebanon, Cyprus, the Gulf and Afghanistan.

TRAVEL UPDATE

Strikes Close 3 Paris Métro Lines

PARIS (AFP) — Three of the 13 Métro lines in Paris will be closed and three others will have reduced service Monday because of continuing strikes, a spokesman for the transit authority said Sunday. The other lines would provide normal services, the spokesman said.

About half of the trains on two suburban RER routes will be operating Monday. The lines were both closed Sunday, as were two Métro lines. Two train drivers were attacked by passengers, one Saturday, the other Sunday. After the second attack, in which youths tossed a tear-gas canister at a driver, the drivers on that line joined the strike.

Air France cancelled three medium-range flights and two long-range flights scheduled for Monday. State train officials said services would function normally Monday throughout the country.

Italian air traffic controllers have called strikes for Wednesday, Thursday and Friday, but Transportation Minister Giorgio Santuz has said he will order a minimum number of controllers to work in order to avoid a paralysis of air traffic. *(Reuters)*

United Airlines, which along with other U.S. carriers recently curtailed cut-rate fares, on Saturday announced lowered fares for people buying tickets a few days before flying. The fare requires purchase seven days in advance and there is a 25 percent cancellation penalty, but the line's nonstop Chicago-Los Angeles fare, for example, drops from $525 to $362 (it had been $239 under the discount eliminated last month). *(AP)*

West Germany's refusal to set speed limits on all its highways is hindering EC efforts to improve road safety and contributing to air pollution, Prime Minister Michel Rocard of France said in a interview published Sunday by the West German magazine Der Spiegel. *(Reuters)*

This Week's Holidays

Banking and government offices will be closed or services curtailed in the following countries and their dependencies this week because of national and religious holidays:

MONDAY: Kenya, Mauritania, Mexico, Thailand, Venezuela.
FRIDAY: Bahrain, Bangladesh, South-West Africa, Nepal, South Africa.
SATURDAY: Bahrain, Bhutan.
SUNDAY: Niger.

Source: Morgan Guaranty Trust Co., Reuters.

Amid Air-Traffic Chaos, Tempers Rise in India

By Barbara Crossette
New York Times Service

NEW DELHI — With the tourist season about to reach its peak in India, the country's domestic carrier, Indian Airlines, has been flying in disarray for weeks because of strikes and shortages of planes.

As flights are canceled, delayed or rerouted daily, tempers among passengers and airline workers are rising.

On Friday, policemen wielding rattan clubs charged into Dum Dum airport in Calcutta to break up a dispute over a request that all employees wear identity cards. Airport employees then turned off passenger-terminal and runway lights, closing the airport temporarily.

The ruckus came on a day when seven flights out of Bombay, the busiest international hub in India, were rerouted or rescheduled.

The Indian press, noting wryly that Prime Minister Rajiv Gandhi is the only airline pilot ever to head the government, has begun a campaign to expose shortcomings of Indian Airlines and India's international carrier, Air India.

Sunday magazine of Calcutta, quoting from the Indian Airlines company magazine, reported that in September, 2,914 of 8,137 departures had been delayed significantly.

In the same month, the most recent for which figures have been compiled, 270 flights, or nine every day, were canceled, often leaving passengers stranded at remote airports.

Passengers' letters to newspapers have recounted hair-raising stories of delays. In one case, a passenger wrote, irate customers commandeered a truck to drive them over mountains in below-freezing temperatures.

The public relations director of Indian Airlines, Ajit S. Gopal, retired recently and joined the chorus of condemnation with a long article in the daily Hindustan Times.

He asserted that passengers were paying the price of political interference in the running of the airline. Government ministers have denied this.

But the problems mount. In the last few weeks, a walkout by baggage handlers prompted Indian Airlines to ask passengers to travel light and handle their own luggage for a few days.

Pilots have begun to call for safer airports and better maintenance following several accidents, including the collapse two weeks ago of the front wheel of an Airbus and two domestic air crashes that killed 164 people on Oct. 19.

Indian Airlines, which has 26 Boeing 737s and 11 Airbuses for its busy domestic and regional routes, is planning to expand its fleet as quickly as possible. But the carrier is by every estimation overworked now, as more Indians begin to have the money to fly.

Bush Is Facing Pressure to Reregulate

By Richard L. Berke
New York Times Service

WASHINGTON — President-elect George Bush faces growing congressional and public pressure to revitalize the federal regulatory machinery, which he himself, as the apostle of deregulation in the Reagan administration, partly dismantled.

Legislators and political analysts say the pressure is fed by a heightened public uneasiness about deregulatory shortcomings that touch the daily lives of millions of Americans: from delays at airports and strains on the national air traffic control system to the presence of hazardous chemicals in the workplace and to worries about the safety of money deposited in savings institutions.

Many legislators, especially Democrats, have long questioned the concept of broad deregulation and are now poised to push for new controls, particularly those dealing with the savings and loan sector, the environment and public health and safety.

"There is not the enthusiasm for deregulation that there once was," said Senator Daniel P. Moynihan, Democrat of New York. "Try to get a flight to Albany from Washington, and you'll know why."

He gets agreement from his fellow New Yorker in the Senate, Alfonse M. D'Amato, a Republican.

"I don't see deregulation as a driving force anymore," Mr. D'Amato said.

The unfettering of both industry and the federal bureaucracy from red tape was a priority of President Ronald Reagan, who was elected in 1980 with a promise to "get the government off the backs of the people."

On his third day in office, Mr. Reagan appointed Mr. Bush chairman of the Task Force on Regulatory Relief. Whether Mr. Bush will seek further limits on the 40 regulatory agencies in the executive branch and the 18 independent regulatory commissions is as yet uncertain, but there is some evidence that he will not.

He did not emphasize deregulation as an issue in the presidential race, although a campaign flier did say that one of his "proudest accomplishments as vice president has been to help eliminate needless government regulations."

On occasion, in fact, Mr. Bush seemed inclined toward some greater regulation, as when he pledged more aggressive efforts to clean up the environment.

Another signal came in his decision to keep Treasury Secretary Nicholas F. Brady, whose appointment in August followed his role as chairman of a presidential commission that studied the stock market crash of October 1987 and urged stiffer regulation of Wall Street.

C. Boyden Gray, who served on the deregulation task force and has been designated by the president-elect as White House counsel, said he expected Mr. Bush to have a "continued commitment to minimal regulation" except where public health and safety or congressional mandate made it impossible.

Deregulation has been a great success, Mr. Gray said, adding that there was little need to mention it in the fall campaign because "the system is fairly ingrained now."

But at the same time, Mr. Gray and others who fought regulations in the Reagan years now talk less of expanding that effort than of resisting congressional moves to reimpose them.

"Regulatory relief was one of the major priorities for the Reagan administration," said James C. Miller 3d, who was executive director of the deregulation task force before serving as director of the White House Office of Management and Budget.

"It certainly does not have that level of priority right now," Mr. Miller said. "We have to preserve what has been accomplished and hold the largely deregulatory gains in areas such as airlines and trucking."

That sentiment is put more bluntly by William A. Niskanen, a former member of Mr. Reagan's Council of Economic Advisers who is now president of the Cato Institute, a research group that promotes free market policies.

"I don't expect much deregulatory initiative from the Bush administration," he said. "Deregulation seems to be one of those things where the political costs are higher than the payoffs."

The outcry for renewed regulation comes not only from some members of Congress but also from interest groups like Public Citizen, an organization founded by Ralph Nader that recently published a scathing critique of the effects of deregulation.

The report asserted that Mr. Bush's task force had shown "a callous disregard for the value of human life and a shocking readiness to apply an accountant's spread sheet to rules that protect our lives."

In one of dozens of examples, it said that "at least 40,000 deaths and one million injuries can be traced to the administration's delay in requiring air bags and automatic safety belts in cars."

Senator John C. Danforth, Republican of Missouri, said it was unlikely that the new president would tolerate congressional moves for broad re-regulation of major industries.

"The fact that George Bush will be in the White House," he said, "should say to a lot of people in Congress that while re-regulation is something people talk about, it's not something that's going to happen."

In U.S., a Tax Tilt to the Rich?

Washington Weighs Shift From 'Fairness' to 'Efficiency'

By Peter T. Kilborn
New York Times Service

WASHINGTON — Beneath the debate in Washington over raising taxes lies a fundamental change in thinking about the federal tax system.

In most previous discussions, there was a strong emphasis on redistributing income from the well-off to the less well-off. But now, the tax system is being viewed as a tool to build a more efficient economy, not a fairer one.

The emphasis on efficiency tends to favor the rich.

Last week, Representative Dan Rostenkowski, an Illinois Democrat and chairman of the House Ways and Means Committee, which prepares tax laws, became the latest prominent figure to speak out in favor of consumption taxes as a means of cutting the budget deficit.

Since the poor spend a greater share of their incomes on consumption than the rich, consumption taxes are considered regressive.

The nation's income-tax system, which collects most government revenues, has long been progressive, levying higher rates on higher incomes.

"The next discussions are clearly going to focus on making the system less progressive," said Stuart E. Eizenstat, a lawyer who was the domestic policy adviser to former President Jimmy Carter.

"In that respect the climate has changed enormously. The equity argument has given way to the efficiency argument."

President-elect George Bush has insisted that he will not raise taxes. Despite his protests, many of the Democrats who control Congress, and budget experts as well, contend that sooner or later new taxes will have to be raised.

Since its inception, one of the roles of the federal income tax has been to redistribute money from the well-off to the poor. Tax revenues went to finance such programs as food stamps, welfare and cut-rate loans.

NEWS ANALYSIS

The tax code also was used as an instrument of social policy.

Lately, other compelling priorities have been intruding upon the desire for redistribution and social cohesion.

Many experts say the government's priorities must be cutting the deficits and tackling some other problems, like people's reluctance to save, flagging industrial investment and the associated erosion of the American economy's competitive edge.

"The emphasis used to be on redistribution, and now it is on production," said Alvin From, the executive director of the Democratic Leadership Council, an association of moderate Democratic legislators.

Measures that are seen as increasing economic efficiency, like consumption taxes, tend to favor the rich. Consumption taxes are thought to contribute to economic efficiency by discouraging consumption and encouraging savings.

Congress and Bush advisers are even pondering tax incentives specifically to stimulate more saving.

Since it is easier for the rich to save than the poor, they benefit most in that respect, too.

Mr. Rostenkowski said his first choice of a way to raise government revenue to lower the deficit would be a substantial rise in the gasoline tax.

His second choice would be increasing the excise taxes on alcohol and tobacco. All are consumption taxes.

He said he did not like the idea of a national sales tax, imposed on most of the things that people buy. That tax appears to stand little chance of enactment.

Few other leading Democratic lawmakers have been willing to take such a position as yet publicly. They say Mr. Bush will have to capitulate on his promise of no new taxes before they agree to increases.

Otherwise, they fear the new president might tag them the "tax and spend" Democrats as President Ronald Reagan did.

But they readily acknowledge a trend toward regressive taxation.

"I have had recommendations from both liberal and conservative economists, and most of them are about consumption taxes," said Senator Lloyd M. Bentsen of Texas, the Democratic vice presidential candidate who is chairman of the Senate Finance Committee, which also writes tax laws.

As a result of the overhaul of the tax system two years ago, income tax rates are lower now than they have been in decades.

Rates of 15 percent and 28 percent were set for most workers, displacing 14 tax brackets that went as high as 70 percent.

Although that change technically made the system less progressive, the overhaul also eliminated many loopholes that had allowed high-bracket taxpayers to reduce their bills.

Many members of Congress say they are most reluctant to touch either the new income tax rates or the payroll tax because of all the effort it took to enact the tax system overhaul two years ago and the overhaul of the Social Security System five years ago.

They deem the rates sacrosanct because of the compromises among competing interests that were required to revise the systems.

SAVED FROM THE FLAMES — Maria Goodrum of the Granada Hills area of Los Angeles carries a pot of goldfish through the remains of her home. The house was one of more than 60 destroyed or damaged by several windswept blazes in recent days. Arson investigators were searching for two men seen in the area of one fire, which burned over 3,200 acres in the San Fernando Valley.

Common Extradition Laws Needed Against Terrorism, EC Ministers Say

By Paul Anastasi
New York Times Service

ATHENS — Interior and justice ministers of the European Community have agreed that common legislation on extradition is necessary to combat "the continuing threat from international terrorism."

Officials meeting here on Saturday exchanged charges, however, in a dispute over the refusal of some nations to extradite terrorist suspects.

Italian officials criticized Greece for releasing a Palestinian terrorist suspect this week, while the British representative called for harmonizing European legislation on extradition to prevent disputes like Britain's complaints against Ireland and Belgium over an Irish Catholic priest suspected of helping the outlawed Irish Republican Army. The Belgian cabinet recently refused Britain's request for the priest's extradition from a Brussels jail and instead flew him to Ireland.

At the end of the meeting of the EC's anti-terrorism working group, known as the Trevi group, the 12 member nations said in a statement that they had agreed to cooperate more closely and to exchange more information, especially about the extradition of suspected terrorists.

The communiqué did not reflect what were otherwise contentious meetings between the ministers. The Italian interior minister, Antonio Gava, said at the end of the conference that Italy had asked Greece to explain its decision last Tuesday to allow a Palestinian terrorist suspect to fly to freedom in Libya, instead of extraditing him to Italy as the two governments had previously agreed.

The Palestinian, Abdel Osama Zomar, 27, is wanted in connection with the 1982 bombing of a Rome synagogue, in which a 2-year-old boy was killed and 37 other persons were wounded.

Greece said it had released him because his activity was part of an effort to liberate his homeland and because matters had changed since the Palestine Liberation Organization recently declared an independent state and criticized the use of terrorism.

Mr. Gava said the Greek decision was a "surprise and a disappointment, the opposite of our original agreement and a breach of the European commitment to combat terrorism." The United States also criticized the decision.

The Greek government dismissed the criticism. Sifis Valyrakis, the undersecretary of public order, said that an explanation for the move "will be provided to the Italian government later, through diplomatic channels."

"This is not the first time that the problem of extradition has arisen," Mr. Valyrakis said. "Each country has the right to make its decisions according to its national interests."

The ministers agreed that common European legislation on extradition should be pursued as a means of avoiding similar disputes. Britain suggested that all members should sign the European convention on extradition, and that each nation's legislation should be adapted accordingly.

The Trevi group meeting was attended by senior U.S. officials, including Attorney General Richard L. Thornburgh; William S. Sessions, director of the Federal Bureau of Investigation, and Paul L. Bremer, head of the State Department's anti-terrorism section.

Talks on Namibia Are Expected In Brazzaville

New York Times Service

BRAZZAVILLE, Congo — Angola, Cuba, South Africa and the United States are expected on Monday to resume their efforts to conclude a political settlement in southwestern Africa.

The new round of talks has not yet been announced, but diplomats familiar with the negotiations said they expected the delegations to converge on the Congolese capital on Monday.

Preparations for their arrival were evident Sunday at the M'Bamou Palace Hotel, where four floors of the riverfront hotel have been set aside for the visitors, as they were at the last round of talks.

The hope is that the negotiators will be able to conclude a protocol, possibly as early as Monday, that will clear the way for a transition to independence in Namibia and a simultaneous phased withdrawal of Cuban military forces from neighboring Angola.

These two issues have been at the core of eight difficult months of negotiations. The delegations have already met in London, Cairo, New York, twice in Geneva and four times in Brazzaville.

U.S. Plane Was Downed By Polisario

The Associated Press

ALGIERS — Marxist rebels of the Polisario Front said Sunday they shot down a U.S. locust-spraying plane over the Western Sahara in the belief it was a Moroccan military aircraft. They said they regretted the incident.

All five American crewmen aboard the plane were killed on Thursday when a ground-to-air missile downed the DC-7 in the Western Sahara, a disputed territory south of Morocco. Another DC-7 chartered by the U.S. Agency for International Development also was hit, but it landed safely about 400 miles (650 kilometers) away.

Polisario forces, who are fighting for the independence of the Western Sahara, said they believed the DC-7s were Moroccan C-130s, a Polisario spokesman said in a telex from Algiers to The Associated Press in New York.

"The destruction of one of the two crafts was in no way premeditated," the statement said. "It was an error caused by a pure coincidence stemming from the war conditions existing in the area and the moment that the planes arrived."

The Polisario Front said it found the wreckage of the plane and was retrieving the bodies of the crewmen. It said the bodies would be returned to the crewmen's families.

The rebel group's headquarters in Algiers earlier denied that its units were involved in the attack.

The statement Sunday called the incident tragic and expressed the Polisario's "deepest regrets" to the world and "deepest sorrow" to the United States. It said the rebels were convinced the incident would not hurt their "friendly and trusting" relations with the United States.

In Washington, a State Department spokesman, Rudy Boone, said there would be no immediate comment. He said U.S. officials would study the statement.

The rebel group said the unit that fired the missiles was carrying no equipment that would have enabled it to identify the planes.

It said the plane was attacked about 15 miles from a wall that Morocco built in the Western Sahara to keep rebels from penetrating farther north into Morocco. The former Spanish Sahara territory was annexed by Morocco in 1976 after Spain withdrew.

"It should be noted that the reconnaissance patrols along the wall come under daily attack from Moroccan aircraft," the statement said.

It said the planes were flying at 6,000 feet. The U.S. Embassy in Rabat said shortly after the accident that the planes were attacked at about 10,000 feet (3,000 meters).

In Rabat, Morocco, a U.S. Embassy spokesman said Saturday that the Moroccan government pledged military protection to help a U.S. team cross the rebel-held land to find the wreckage.

The planes, which took off from Senegal and were bound for Morocco, were on locust-spraying missions. The five crew members in the second plane were uninjured.

The U.S. plane was the fifth aircraft shot down over the disputed territory since the Sahara war broke out in 1975. Previous incidents involved small French private aircraft.

Salvage Crew Recovers Wreckage of Airliner

Reuters

PORT-LOUIS, Mauritius — U.S. salvage workers said on Saturday that they had recovered the first pieces of a South African airliner that crashed into the Indian Ocean in November 1987, killing all 160 people aboard.

The pilot of the South African Airways Boeing 747 had reported smoke in the cockpit just before the crash, but the cause of the accident remains a mystery. The salvage crew is using the same underwater robot that recovered the wreckage of the space shuttle Challenger after its explosion in 1986.

Vast FBI Check Delays The Decision on Tower

By Bob Woodward and Charles R. Babcock
Washington Post Service

WASHINGTON — The final decision on former Senator John G. Tower's nomination as secretary of defense is being held up while the FBI conducts an exhaustive background investigation that one knowledgeable official has called "more thorough than any the FBI has ever done."

Transition officials for the Bush administration said the final decision on a defense secretary would probably not be made until after the FBI completed its investigation, which could take another two weeks or longer. The investigation began in earnest about 10 days ago and has included interviews as far away as Geneva, where Mr. Tower served as an arms-control negotiator in 1985-86.

Mr. Tower remains the leading candidate and as of Saturday no information had been turned up by the Federal Bureau of Investigation that would prevent the Texas Republican's nomination, officials said.

The extraordinarily broad FBI background investigation has involved interviews with Mr. Tower's former wife, former colleagues in the Senate and associates in his defense consulting business, as well as an examination of his personal and past campaign finances.

One focus of the inquiry is Mr. Tower's relationships with several military contractors that have paid him lucrative consulting fees over the past few years. They include Rockwell International Corp. and LTV Corp., major contractors for the B-1 bomber that Mr. Tower supported while a senior member and then chairman of the Senate Armed Services Committee.

"I feel sorrier than hell for John Tower," said one influential Bush transition official. He said that the FBI director, William S. Sessions, had met with Mr. Bush's counsel, C. Boyden Gray, and was told to be as thorough as possible in investigating Mr. Tower and other top appointees.

FBI officials said they feel the Bush transition team had set no limits on the full field investigations of top appointees.

3 U.S. Soldiers Die in Italy

The Associated Press

VICENZA, Italy — Three U.S. soldiers died when their car went off a bridge and landed upside down in a river, the army said Saturday.

AMERICAN TOPICS

Neighborhoods Erect Anti-Crime Barriers

Crime is rising so sharply in the Miami-Fort Lauderdale area, mainly because of illegal drugs, that many people are barricading their streets in an effort to keep criminals out, The New York Times reports.

Sometimes just one street is blocked off to cars and thus to criminals cruising for easy targets. But sometimes whole neighborhoods are blocked off by bright orange barrels or by gatehouses, forcing cars onto main thoroughfares. Some neighborhoods also have checkpoints where private guards stop cars, question drivers and make note of license plate numbers.

The barricades usually are erected after a vote by neighborhood residents and approval by the county commission, which then sets up a special tax district to pay for them. In one well-to-do enclave of 600 dwellings, one main entrance has been barricaded and a gatehouse has been installed at the other. This will cost each household $365 the first year and $160 a year thereafter.

Lawyers say the barricades are legal because they close the street to all motorists, not just some.

Even some law enforcement officials are now saying publicly that rising crime is a problem beyond the control of the police, the courts and the prison system. Homicides in Miami's Dade County number 395 so far this year, up 20 percent over last year. Crime is rising elsewhere. In Washington, homicides are up 60 percent, in Houston, 40 percent; in New York City, 17 percent.

On Stowing a Purse When Out to Dinner

How and where can a lady stow her purse when she is out to dinner? Sarah Booth Conroy, who covers such social puzzlements for The Washington Post, says a lady with a purse can:

- Lock it in her car trunk if she has a car.
- Put it on the floor and either hook the strap around the heel of her shoe or a leg of her chair, the better not to kick it across the room.
- Hang it from the back of her chair (careful, though — it might collide messily with a serving platter).
- Put it on her lap and hope it doesn't slither to the floor.
- At private dinners, stow it in a bookcase or behind the sofa and hope the dog or the children don't find it before she retrieves it.

"Do not despair!" Ms. Conroy counsels. "A way exists to deal with the situation. You give your bag to your husband/date. Let him worry about it."

Short Takes

Next year, while France celebrates the 200th anniversary of its revolution, Texas will observe the 150th anniversary of France's diplomatic recognition of the Republic of Texas. So Henri Bernabe, 38, a Frenchman who arrived in Austin, Texas, a decade ago and now heads a wine company there, sent two cases of Texas champagne — er, sparkling wine — with a Texas delegation to a Paris meeting of the American Committee for the French Revolution and Human Rights. He said he hopes to send over "several hundred cases" during the coming year.

More and more advertisers are parodying their own medium. A newspaper ad for the new film "The Naked Gun" says, "You've read the ad. Now see the movie!" Miller Lite Beer is endorsed on television by a smooth-talking celebrity spokesman who intones, "I'm not a beer drinker, but I play one on TV." In another Miller Lite commercial, a man with huge bundle of cash stuffed into his sports jacket attracts interest from two pretty women as the announcer says, "Studies show that you're 79 percent more likely to meet an attractive woman drinking a Lite long-neck — and carrying $1 million cash."

Notes About People

The series of policy recommendations to members of the incoming Bush administration includes one from **Donald Rumsfeld**, who was President Gerald R. Ford's chief of staff. He recommends, "Never say 'the White House wants' — buildings don't 'want.'" And "don't forget that the 50 or so invitations you receive a week are sent not because those people are just dying to see you but because of the position you hold. If you don't believe me, ask one of your predecessors how fast they stop."

Senator **Bill Bradley** of New Jersey, who campaigned in 24 states for the Democratic ticket during the presidential campaign, says that on his travels he found that "kids always ask the most obvious and the most difficult questions, like 'Why are you a senator?' Not so easy to answer."

Arthur Higbee

2 Palestinian Factions Assail Arafat on Israel

Compiled by Our Staff From Dispatches

DAMASCUS — A pro-Syrian Palestinian group has assailed Yasser Arafat for what it called his "capitulatory" statements in Stockholm, and Iran has said his recognition of Israel was "a crime against the whole Moslem world."

The Democratic Front for the Liberation of Palestine, headed by Nayef Hawatmeh, said Mr. Arafat's statement, clarifying the Palestine Liberation Organization's recognition of the state of Israel, put a "capitulatory" slant on the resolutions adopted by the Palestine National Council in Algiers Nov. 15.

The council, which the PLO considers a parliament in exile, accepted the United Nations Security Council Resolution 242, which had sought to settle the 1967 Arab-Israeli war by calling for recognition of the territorial integrity and sovereignty of all states in the region.

Georges Habash, leader of the Popular Front for the Liberation of Palestine, said at a rally marking the anniversary of the Palestinian uprising in Israeli-occupied territories: "Arafat's recent statements in Sweden did not reflect the reality of the decisions adopted by the PNC in Algiers."

Washington had complained that the Palestinian council's resolution did not constitute a clear recognition of Israel's right to exist.

Mr. Arafat said last Wednesday that the council effectively recognized Israel at Algiers.

"The PNC accepted two states, a Palestinian state and a Jewish state, Israel. Mr. Arafat said. "Is that clear enough?"

The Popular Front said Mr. Arafat had fallen into a trap set by the Reagan administration designed to end U.S. isolation after its refusal to grant Mr. Arafat a visa to address the UN General Assembly in New York. The UN debate on the Middle East has been switched to Geneva, where Mr. Arafat will speak Tuesday.

The Iranian press agency quoted a cabinet statement as saying, "The struggle against the Zionist regime will not come to a halt unless the entire land of Palestine is restored to its people." (AFP, Reuters)

A Summons to Iranian Men

Reuters

NICOSIA — All Iranian men born between 1966 and 1969 who live abroad must apply to their embassies for new identity cards, Tehran Radio reported Sunday. The radio, monitored in Nicosia, said those studying abroad should also contact Iranian student affairs offices to ensure they had cleared their military service requirements.

هكذا من الأصل

Flow of Global Aid in Quake Biggest Since Postwar Period

By Richard Homan
Washington Post Service

WASHINGTON — An outpouring of international assistance unmatched since the period just after World War II is being sent to the Soviet Union to help the relief effort after the earthquake in Armenia.

Three cargo planes carrying U.S. medical supplies and rescue teams, including dogs trained to find survivors in rubble, left Washington and a base in Italy on Saturday for Yerevan, the Armenian capital.

Other plane loads and offers of aid came from around the world — including a 42-member medical team from India, 200 rescue workers and doctors from France, a donation of blood from President Fidel Castro of Cuba and a personal message and contribution of $100,000 from Pope John Paul II.

Israel, which has no diplomatic relations with the Soviet Union, is to provide a military field hospital, doctors and equipment, and an Israeli Army spokesman said a search-and-rescue team was in Armenia already, Reuters reported Sunday from Jerusalem.

The generous response from abroad, and the Soviet willingness to accept it, are evidence of an about-face in the Kremlin's dealings with the outside world, in the view of many observers.

As recently as the Chernobyl nuclear power plant disaster in April 1986, the Soviet Union refused offers of outside assistance, except for the aid of some American physicians who were expert in illnesses caused by radiation exposure.

This time, Soviet officials quickly made up lists of their most urgent needs, said Julia V. Taft, director of the Office of Foreign Disaster Assistance in the U.S. Agency for International Development.

The Soviets are allowing foreign relief planes to fly directly to Yerevan and to Leninakan, one of the hardest-hit cities. On Friday, the Soviet press agency Tass reported, 180 planes landed at Leninakan, where only four or five flights normally land daily.

A Dutch medical relief crew was refused visas, the Associated Press reported from Amsterdam. A Red Cross official in Amsterdam, who asked not to be named, said that Soviet diplomats had asserted that no more foreign relief was needed.

U.S. relief planes left Saturday from Andrews Air Force Base and Dulles Airport outside Washington and a military base at Pisa, Italy, according to the Agency for International Development.

In addition to carrying teams of trained dogs, the plane from Dulles carried relief supplies and a six-doctor trauma unit, including Dr. Robert Gale of the University of California at Los Angeles, who helped the Soviets treat victims of the Chernobyl accident, United Press International reported.

The American industrialist Armand Hammer, head of Occidental Petroleum Corp., flew to Armenia on Saturday with a donation of $1 million and medical supplies, UPI reported.

The Polish government pledged tents and medical supplies, and Lech Walesa, leader of the banned Solidarity labor union, urged Polish workers to contribute to a Roman Catholic Church fund for Armenia, the AP reported.

Britain, West Germany and Italy have also responded with aid.

ARMENIA: *Quake Relief Slowed*

(Continued from page 1)

situated in an area of frequent earthquakes.

Choking back tears, the mayor said he lost 15 relatives, including his wife.

Hundreds of bonfires fueled by cardboard and other debris provided the only heat for people who had spent four nights on the streets. Smoke from the fires hung over the city.

Everywhere, officials and rescuers pleaded for more cranes and heavy equipment to drag slabs of concrete and twisted pillars off of trapped victims.

At one site, rescuers worked feverishly with saws, torches, hammers and crowbars to free a family of seven discovered in the rubble of a nine-story apartment building.

A Swiss rescuer, Heinz Brecht, said his team had used search dogs on Saturday to locate five survivors. But he said the work was difficult because of the scale of the destruction.

Another rescuer, Manuel Zalyan, said, "If the equipment had come on time, we could have saved many more people." Mr. Zalyan had just finished searching a flattened five-story apartment building that had housed 50 families.

Relief from abroad continued to flow in.

"The relief effort until you reach the spot here has been very good," said Sverre Kilde, a United Nations relief official. "But here on the spot there is no control."

"For those who still could be saved they would need more heavy equipment." But for many, he said, it would be too late because the equipment was arriving so slowly.

Mr. Gorbachev said 3,900 soldiers from the region who were performing military service throughout the country were being granted leave to return home to join their relatives.

Mr. Kirakosyan told reporters the newer apartment buildings had been constructed to withstand a shock of 7 to 8 on the 12-point Mercalli scale, which measures the intensity of an earthquake. He said the quake registered 10 in Leninakan, and the buildings crumbled.

Kagik Avakyan, a 27-year-old sculptor, said that until 20 years ago most buildings in Leninakan were built low because of the danger of earthquakes.

"People knew there were often earthquakes here," he said, "so they didn't build anything bigger than two stories."

In his interview concerning the ethnic dispute, Mr. Gorbachev warned Armenians that they must stop their campaign to gain control of the disputed territory of Nagorno-Karabakh, a largely Armenian enclave in the neighboring Azerbaijan Republic. He condemned nationalist leaders as "political adventurists."

Clenching his fist and punching a finger in the air, Mr. Gorbachev made it clear that he was exasperated with the Armenians' territorial demand, which the Kremlin has rejected.

"Stop," he said repeatedly, adding that he had told 100 Azerbaijani and Armenian representatives at a meeting in Moscow late last month that the campaign must halt "because beyond there is a precipice."

Mr. Gorbachev called "corrupt and dishonest" those who have been "putting pressure on the government" over Nagorno-Karabakh. He condemned those who said that Armenians would be "sent to Siberia," apparently referring to local fears that survivors of the earthquake would be evacuated outside the republic.

"These are the kind of people who want power," he said. "They must be stopped."

Mr. Gorbachev did not refer specifically to the Karabakh Committee, an unofficial group that has led a 10-month campaign for the transfer to Armenia of the Azerbaijan-administered enclave of Nagorno-Karabakh.

Five members of the committee were arrested on Saturday, four of them sentenced to 30 days in jail, according to Armenian sources in Yerevan. The fifth, a member of the Armenian parliament, was later freed, the sources said.

(AP, UPI, AFP)

KABUL: *Up-and-Out Deadline*

(Continued from page 1)

Soviet carrier, serve Kabul. Ariana's foreign flights are limited to New Delhi, Moscow and sometimes Dubai, in the United Arab Emirates, but the Soviet Union and Dubai admit only official Afghan visitors.

The Kabul authorities have recently made it easier for citizens to receive passports. Some Afghans and diplomats speculate that Soviet advisers apparently counseled the action to rid Kabul of people of means, who may be assumed to be hostile to communism.

Others report that passports are issued in return for bribes. The fees are said to be whatever the market can bear, with heavy supplements for young men nearing draft age. No one knows for sure in this city of rumors, where the small foreign community spends social evenings trading unconfirmable tales, and Afghans remain discreet.

Some Afghans are letting it be known, truthfully or not, among their friends and neighbors that they no longer belong to the ruling People's Democratic Party.

Unlike other cities that have neared deadlines beyond which may lie bad times, Kabul is not a place where local residents confide their worries to outsiders. With the approach of the Feb. 15 deadline, people speak to foreign acquaintances largely in allusions and gestures that denote helpless fear.

But perhaps because the long lines at food stores are evident, people do not hesitate to complain of mounting shortages of necessities. Two-hour waits at bakeries selling *nan*, the flat bread that is not only the staple but also increasingly the sum total of common people's diet, have become the rule.

The population of the capital, swollen by war to about 2.2 million from well below one million in peacetime, is almost totally dependent on Soviet flour. But the flour must come down the same highway that supplies all fuel for government-held Afghanistan as well as other staples and meets the needs of the remaining 50,000 Soviet soldiers. Traffic on the road is frequently harassed by guerrilla bands that, not unlike customs authorities, admit some products and not others.

Kabul's second lifeline, the road eastward to Pakistan, has been cut for weeks, depriving the population of much of the produce that supplemented its diets in better days.

The country was not self-sufficient in food even before the war. Officials of international organizations have found much evidence of hunger and malnutrition.

VIETNAM: *War Postmortem*

(Continued from page 1)

were officers involved in directing Hanoi's war effort. Foreign Minister Nguyen Co Thach addressed the opening session.

"There was a level of mutual respect and openness that I've never experienced in another socialist country," said Professor Allen Whiting, a scholar on China and director of the Center for East Asian Studies at the University of Arizona.

He added: "I don't think anyone would have expected them to be as candid and frank in the sharing of information as they were."

He said the exchange between the Vietnamese and the Americans — all noted scholars of Vietnam and Asia from American institutions — had taken place without political rhetoric from either delegation.

"Neither side felt compelled to apologize or to boast," he said.

A full half-day of the conference was devoted to the Tet offensive. According to the American participants, their Vietnamese counterparts appeared to acknowledge for the first time that the offensive had depleted Communist military strength in the South.

Tet, or the Lunar New Year, was the surprise attack launched by Viet Cong forces against all major cities, towns and military bases throughout South Vietnam, beginning Jan. 31, 1968. The offensive brought the conflict for the first time into South Vietnam's major urban centers, and it shifted American public opinion decidedly against the war.

Mr. Whiting, who has written extensively about China's role in the war, said the Vietnamese had confirmed that there were a far greater number of Chinese advisers in the country assisting in the war effort — several thousand at one point — than had been publicly acknowledged before. He said Hanoi's acknowledgment of China's role seemed to signal Vietnamese willingness to normalize relations again with its northern neighbor, following a decade of tension and border clashes.

The American scholars said that in addition to learning from their Vietnamese hosts, they had helped the Vietnamese better understand the rationale behind the policy decisions made by different U.S. administrations.

For example, Mr. Whiting said he had explained the decision-making process of President John F. Kennedy and President Lyndon B. Johnson. Before the conference, Mr. Whiting said, Hanoi had appeared to believe that U.S. policy in Vietnam had followed a consistent line that had been laid down by President Dwight D. Eisenhower in 1954 and adhered to by all succeeding administrations.

CHINA: *Regionalism a Challenge*

(Continued from page 1)

turns back trucks that are carrying Jiangsu's scarce silk cocoons to Shanghai's factories.

Jiangsu wants to keep its silk for its own factories, and it does not care that they are not as efficient as Shanghai's.

Many municipalities have also ignored central government directives by offering foreign investors tax breaks and incentives that they had no authority to offer. And in Guangdong Province, many businesses openly flout laws forbidding child labor or stipulating working conditions.

A major test of wills is under way, as the central government in its current retrenchment tries to regain authority over localities. So far, Beijing has had only limited success.

"The center doesn't really have the power to stop it," said Dwight H. Perkins, a Harvard University economics professor who has written extensively about China's development. "Or it doesn't want to use that power."

Other economists and diplomats agree that decentralization has assumed a dynamic of its own, and — short of extremely harsh measures that Beijing would be reluctant to take — it will not be easy to reverse.

It is not clear how decentralization will affect development.

On the one hand, it could accelerate the drift toward market economics. In the early 1980s, for example, many communes moved faster than the government intended in dividing up the land into privately farmed plots. If unsupervised, municipalities in the late 1980s might also go beyond central directives in encouraging private enterprise and free markets in housing and securities, for example.

A lack of supervision might also foster political relaxation. A Western diplomat said a campaign last year against "bourgeois liberalization," by leaders wary of rapid reforms, fizzled largely because the provinces refused to take up the cause.

On the other hand, decentralization does not necessarily mean more private enterprise, because local leaders may be less enthusiastic about the market than officials in Beijing.

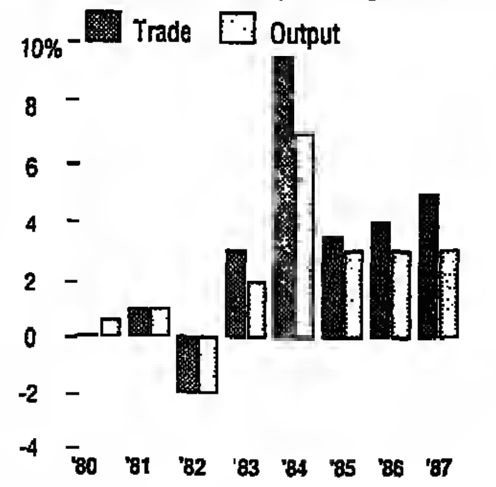
For example, in rural Chengbei Township, a thriving area not far from the city of Suzhou, local officials have more power than they ever had before — and they are using it to block individual enterprises.

"We don't encourage private enterprises," Xia Zhongxing, a local Communist Party official, said. Mr. Xia said that the township favored collective enterprises because the township has authority to collect funds from them.

The Accelerating Growth of Trade

Merchandise Trade and Output

Percentage change over preceding year



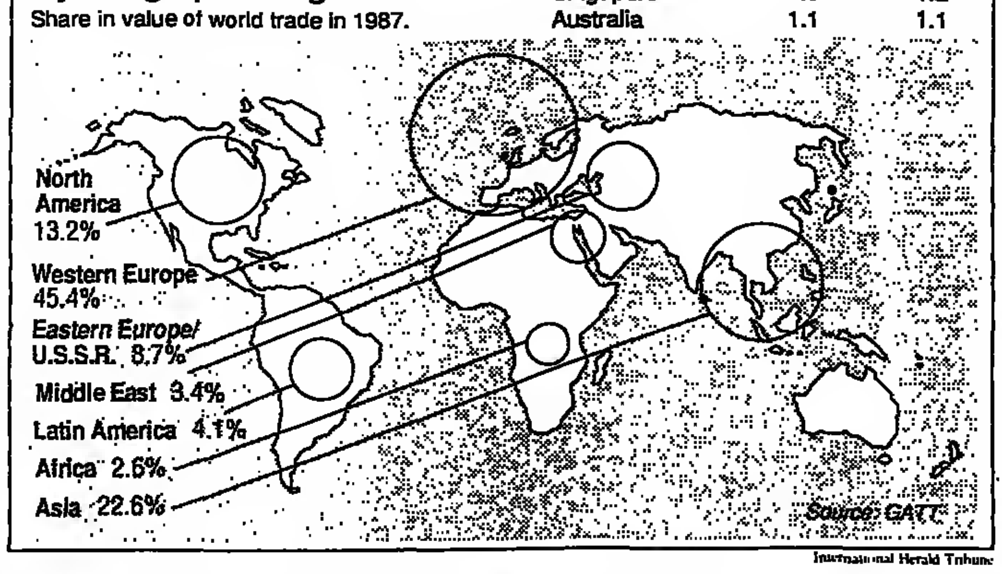
Exporters and Importers

Leading exporters and importers by share in world merchandise trade in 1987-1988.

Country	Imports	Exports
United States	16.5%	11.9%
West Germany	8.9	11.9
France	6.2	6.0
United Kingdom	6.0	5.3
Japan	5.9	9.3
Italy	4.9	4.7
USSR	3.7	4.4
Canada	3.6	3.9
Netherlands	3.5	3.7
Belgium/Luxembourg	3.2	3.4
Switzerland	2.0	1.8
Spain	1.9	1.4
Hong Kong	1.9	2.0
China	1.7	1.6
Korea	1.6	1.9
Sweden	1.6	1.8
Taiwan	1.3	2.2
Austria	1.3	1.1
Singapore	1.3	1.2
Australia	1.1	1.1

Merchandise Exports By Geographic Region

Share in value of world trade in 1987.



International Herald Tribune

TRADE: *Opposing Forces Face Off on Protectionism*

(Continued from page 1)

he warned, it will not be able to create the planned single car market after 1992.

Japanese and Americans alike are alarmed by the European Community's adoption of the principle of "reciprocity" to guide its trade relations with other countries in its single market. Although the Europeans insist that reciprocity would be used to free trade rather than impede it, the community's trading partners fear that it will lead to a "tit-for-tat" approach that would squeeze them out of Europe.

Ironically, as much of the world struggles to deregulate and open markets, the traditional leading advocates of free trade — the United States and Western Europe — are most frequently accused of harboring protectionist tendencies.

It was their blistering feud over farm subsidies that derailed the trade talks in Montreal.

European and American officials deny they have any intention of following the route toward protectionism that led to economic disaster in the 1930s.

As the world's two largest traders, the United States and the European Community have the most to lose from trade wars or a closing of world markets, officials insist.

The Japanese, and many others, have many of the same fears about trade practices in the United States as they do about Western Europe, particularly since the passage of the U.S.-Canada free-trade pact. They, and some Americans, fear that a resurgence of "economic nationalism" may occur.

In a clear reference to both the European Community and the United States, Foreign Minister Sousuke Uno of Japan called on other countries last week to resist protectionism in the form of "inward-looking regionalism" that could lead to economic blocs.

The European Community and the United States themselves, with relations further soured by the dispute over farm subsidies, have exchanged charges over trade policy.

European officials have accused Washington of stirring up illusory fears of a Fortress Europe. U.S. officials have said it is up to the Europeans to prove that the fears are unjustified.

Many international officials argue strongly that there is no evidence the fears are being realized.

Protectionism, they say, normally thrives most strongly during economic recessions, when jobs are most at risk and politicians most likely to ignore the economic case for free trade.

Although protectionist sentiment remains strong, there is no concrete evidence that it has dramatically changed trade policies — either in the European Community or the United States, these officials say. And as long as the current economic expansion continues, traditional thinking suggests that it will continue to keep the protectionist excesses at bay.

The question is whether traditional rules still apply when the balance of power in the world economy is probably changing more fundamentally than at any time since the Industrial Revolution.

As long as the United States and Western Europe led the world in industrial development, they had an obvious interest in keeping other markets open. But now that other countries, led by Japan, are rapidly gaining ground, it is the Europeans and Americans who are on the defensive.

European business leaders have warned that increased competition in the European Community will heighten demands from European companies for external protection at the EC frontier, on grounds that they cannot be expected to simultaneously compete with Japan and their European rivals.

The fact that Prime Minister Margaret Thatcher of Britain has joined those warning about a Fortress Europe has actually increased concern, particularly in Washington.

The most recent concern about protectionist moves in the United States focus on the trade bill passed this year. It provides for tougher action against nations indulging in "unfair" trading practices.

Echoing the European Community's defense of reciprocity, Washington insists that the bill is far less worrisome that it might have been, and is intended to force other markets open — not close American markets. Many U.S. analysts agree.

"The United States has not embarked on a new policy and has not turned away from open trade and multilateralism," Joan E. Spero, senior vice president of American Express Co., said in a recent study.

"However," she added, "it has positioned itself to do so if the multilateral system breaks down."

Other economists have been more severe. The trade bill leaves "a wide open door for protectionist legislation," Martin S. Feldstein, former chairman of the president's Council of Economic Advisers, said recently.

David D. Hale, chief economist at Kemper Financial Services in Chicago, said that Americans were so perplexed by the issues of trade and foreign ownership that a failure by the Bush administration to develop a credible economic policy "could set the stage for an upsurge of American economic nationalism and populism that would destabilize the whole world economy during the early 1990s."

Mr. Hale argued that Mr. Reagan has been "the most protectionist president in American history," pushing the share of total U.S. imports that are subject to quotas or official restraint to 25 percent from 10 percent.

A number of American economists have questioned whether the classic Anglo-Saxon, free-market concept on which the postwar global trading system was based still fully applies to the world economy.

According to advocates of "strategic trade theory," there may be an economic argument for government intervention to promote specialization in key industries that should not be allowed to fall into foreign hands.

In a recent book, "Trading Places," Clyde Prestowitz, a former top U.S. trade negotiator, argued that the United States and Japan have such fundamentally different perceptions of what constitutes open markets and acceptable levels of government intervention that there is no practical alternative to managed trade between the two.

Classic, free-trade economists argue that such views will not become widely accepted in the United States or Europe.

Paul Krugman of the Massachusetts Institute of Technology, a pioneer of the new trade theory, says that while it is "politically explosive," the theory has not yet led to any bursts of protectionism.

It is a further irony that just as some Western economic thinkers are re-examining the desirability of free trade, much of the rest of the world is moving toward increased trade liberalization.

Although they are still outside the Western framework, China and the Soviet Union are groping toward more open market systems.

Many formerly closed developing countries, from Mexico to Morocco and the Philippines to Brazil, are lowering commercial barriers.

In the major industrialized countries, on the other hand, the drift is in the opposite direction.

"We are seeing more often, product-by-product, country-by-country deals," Barber B. Conable, president of the World Bank, said in Montreal. "Mercantilistic proposals to carefully check trade balances with each trading partner are mooted frequently, as are threats to remove multilaterally agreed benefits if bilateral problems are not resolved."

That was the kind of problem that the free traders hoped to tackle in Montreal. Their aim was to give the international trading system a big push toward openness by pressing ahead with the latest bid to reform the trading system, the so-called Uruguay Round of negotiations.

Despite the setback last week, the multilateral effort will continue. But it was a telling sign that the talks failed in Montreal because of a bilateral dispute.

"In textiles, in clothing, in agriculture, in autos and in many other products," Mr. Conable said, "managed trade is not a threat but a reality."

The United States, Japan and the European Community, he said, should all have a strong interest in an open, multilateral trading system, "but today that vision has changed."

"What is now at stake," he added, "is nothing less than the open, multilaterally agreed trade environment."

Tomorrow: Japan is worried.

Some Hear Protectionism When EC Says Reciprocity

International Herald Tribune

As the European Community advances toward its single market, it says its trade policy will be guided by one harmless-sounding, but ambiguous word: reciprocity. For EC trading partners, that word sets off warning bells of protectionism.

The EC argues that other nations will benefit as much as EC countries from a single European market of 320 million consumers. In return, it wants comparable access to their markets.

It says it will apply reciprocity only where international rules do *not already exist* — largely in services like banking and insurance — and it will use the principle to open other markets, not close its own.

Reciprocity does not mean, the European Community says, that all its trading partners must offer identical concessions and adopt identical rules to those in the community. Nor is it seeking to balance trade in individual sectors, as some critics have suggested.

But neither the United States nor Japan are entirely reassured. The EC approach "could require countries to mirror the laws and regulations of the EC in order to have equal access to the internal market," Peter McPherson, deputy secretary of the U.S. Treasury, said recently.

The EC, for example, has argued that European banks cannot operate as freely in the United States as U.S. banks will be able to operate in the single EC market because the United States restricts interstate banking and bars banks from underwriting securities.

While U.S. banks that already have subsidiaries in EC countries will enjoy the same privileges as European banks, the European Community is considering how reciprocity will apply to newcomers.

Joan E. Spero, a senior vice president of American Express Co., made a distinction between good and bad reciprocity. Good reciprocity, the principle that benefits should be roughly mutual, is the basis of U.S. and international trade rules. Bad reciprocity, or tit-for-tat, is dangerous, she noted. The European Community's trading partners are not sure which of the two the EC has in mind.

The Free-Trade Forces Count on Thatcher's Aid To Keep EC Door Open

By Warren Getler
International Herald Tribune

LONDON — With Washington and Tokyo worried that the creation of a single European market after 1992 will further restrict their access to 320 million consumers, officials in both capitals are looking to Margaret Thatcher to prevent the European Community from becoming an exclusive economic club.

The Americans and the Japanese hope that the British prime minister will persuade European leaders to keep a recent pledge to prevent the march toward a community free of internal economic barriers from becoming an excuse for more protectionism.

"1992 Europe will not close in on itself," Mrs. Thatcher said this month at a meeting between EC leaders in Greece, where the 12 community members made their pledge after she had bluntly prodded them. It "will not be a Fortress Europe."

That is the kind of tough talk that American and Japanese officials and business executives want to hear, but many remain doubtful about EC moves.

"We strongly support the view taken by Mrs. Thatcher, who has a strong voice in world affairs, in favor of free trade, said Katsumi Sezaki, chargé d'affaires at the Japanese Embassy in London. "A closed European market would be disastrous."

Yet Mrs. Thatcher alone will not be able to ensure open access in the European Community, experts say. She will need help from her free-trading friends in West Germany, the Netherlands and Denmark.

Martin Bangemann, the former West German economics minister, who will become a member of the EC Commission next year, may prove to be an important ally.

"Free trade has still to be stoutly defended," he wrote recently, "especially in democracies where people look to their own narrow interests."

Fortress Europe would be anathema to Britain for several reasons. Britain trades with non-EC countries to a greater degree than other EC members. It is also by far the largest direct investor in the United States.

Mrs. Thatcher drove home the point to members of Parliament last month when she rejected calls for more protection against foreign takeovers of British companies. She noted that in the year ending in June, the value of acquisitions in Britain by foreign companies totaled £2.9 billion ($5.36 billion), compared with British takeovers abroad worth £13.7 billion.

If the United States were to retaliate against Europe for protectionist policies, said Brendan Brown, a senior economist with National Westminster Bank PLC in London, "London would have a lot to lose."

But over the long run, several factors appear to limit Mrs. Thatcher's influence in guaranteeing outside access to the single European market. She has antagonized many politicians in other European countries by describing their visions for wide-ranging social and economic integration as "airy-fairy." If she is unwilling to be a "team player" on internal EC policy matters, what weight will she have in forging external trade policy?

In addition, her government's record on authorizing foreign takeovers of British companies is spotty.

For example, Britain did not approve a merger of British Caledonian Airways with Scandinavian Airline Systems, and it forced the Kuwait Investment Office, an investment arm of the Kuwaiti government, to sharply reduce its stake in British Petroleum PLC.

A senior American diplomat in London said that Mrs. Thatcher, who has campaigned forcefully to reduce EC agricultural subsidies and has sought to limit national aid to the British partner in the European Airbus consortium, shares some "American suspicions" about EC preferences for protectionism.

But he said it would be "counterproductive" if the British leader were to be seen as doing Washington's bidding" in Europe.

"The British have to be careful not to appear as an Atlantic Trojan horse," the diplomat said.

Pacific Nations Warn on Trade

Reuters

TOKYO — Japanese and Australian politicians warned the United States and Western Europe on Sunday against forming blocs that hinder free trade and called for more cooperation in the Asia-Pacific region.

Both Trade Minister Hajime Tamura of Japan and former Prime Minister Malcolm Fraser of Australia voiced concern that economic integration in Western Europe in 1992 and a recent trade pact between the United States and Canada could lead to increased protectionism.

Mr. Fraser called for Japan and Australia to take the lead in forming a trade association in the Asia-Pacific region designed to lead to more open markets worldwide. Although the association would be open to countries outside the region, it would also help shield smaller Asian-Pacific nations against protectionism, he said.

INTERNATIONAL Herald Tribune.
Published With The New York Times and The Washington Post

OPINION

Gain for Human Rights

On Saturday it was 40 years since the adoption of that most frequently flouted of United Nations exhortations, the Universal Declaration of Human Rights. Torture is still practiced by a third of the world's governments, according to Amnesty International. In too many countries, people are still locked up for *speaking out*. Racism, detention, banishment, denial of emigration — these and other wrongs persist.

And yet there is genuine reason to celebrate. Hardly anybody now dares say that how a government treats its people, especially dissenters, is purely an "internal matter."

Twenty, ten, even five years ago, no consensus existed on the proper place of human rights in foreign affairs. Now Soviet officials discuss the subject routinely and without defensiveness, as Mikhail Gorbachev did at the United Nations on Wednesday.

The change of heart in Washington is almost as striking. When Ronald Reagan took office in 1981, his aides viewed human rights concerns as a bleeding-heart legacy of the Carter years. The new attitude was stated by Secretary of State Alexander Haig in his first news conference: Fighting terrorism, he said, "will take the place of human rights." To drive home its disdain, the new administration nominated as human rights chief Ernest Lefever, a crotchety ultraconservative who opposed saying anything out loud about abuses committed by "friendly" right-wing dictatorships. Congress balked, and Mr. Lefever's name was withdrawn.

Now look. This administration is winding up remarkably close to the once scorned Carter view. The State Department issues candid annual reports on human rights. Every U.S. embassy has a human rights officer who routinely asks questions of host governments. In places like South Korea, Chile and Paraguay, Washington has made useful trouble with "friendly" dictators.

Human rights ought to be, as Jimmy Carter phrased it, the heart and soul of America's foreign policy. Tying aid to human rights saves lives and empties jails. It gives resonance to the truths of the Declaration of Independence and Bill of Rights, assets more precious than any missiles or tanks. And there is now an American consensus that a plausible human rights policy has to strive for a single standard of judgment.

Forty years later, the whole world is truly watching, thanks in part to an expanding network of monitors. From Israel's West Bank to Soviet Azerbaijan, from the townships of South Africa to the slums of Paraguay, conflicts involving human rights can no longer be hidden from view. Brutal rulers will continue to jail, deport, torture and murder, but they must reckon with scrutiny, exposure, condemnation and loss of aid, and that is good news.

— THE NEW YORK TIMES.

Worse Than the Debt

At first glance, most Americans are likely to dismiss Mikhail Gorbachev's proposals on the Third World debts as mere posturing. Since the Soviet Union has done little development lending, it can talk grandly about forgiving other people's loans, at little cost to itself. But in the Third World his initiative is likely to be accepted widely as a promising way out of the debt trap.

There is a dangerous flaw in the approach that the Soviet Union now suggests. It assumes, as many Americans also assume, that the deep economic troubles of the debtor countries are fundamentally caused by their burdens of debt service. If that were true, Brazil's moratorium on debt repayment last year would have left it richer instead of poorer. And Peru, which cut its repayments three years ago, would now see its economy prospering instead of collapsing.

The real trouble is that the middle-income debtors, like the big Latin American countries, have inherited social and economic structures that are poorly adapted to industrial growth in the late 20th century. The distribution of income is grossly unequal, with enormous concentrations of wealth at the top and poverty for the majority. The education systems are weak. The relations between government and private business are too close, often to the point of incest.

The foreign debts have aggravated the strains on these economies, but the debts are not the fundamental cause of the current distress. If the tooth fairy were to wipe away all of those debts tonight, within a few years the underlying imbalances in these countries would reassert themselves. The threats to growth, and to democracy, would be no less than they are today.

The friends of these countries need to begin talking about debt relief on a larger scale. But they have to go far beyond the Gorbachev proposals. The creditors have been using debt relief in modest amounts to encourage reform, and Mexico in particular has already gone a long way. Creditors now have an obligation to respond with faster relief and demonstrate to Latin voters that these reforms, although painful at first, can bring substantial rewards.

The time has come for an American president to provide a clear sense of direction to both the debtors and the creditors. Mr. Gorbachev's speech was a challenge to George Bush. In the coming months Mr. Bush will have his opportunity to answer by laying out a better and more enduring defense of Latin prosperity and democracy.

— THE WASHINGTON POST.

A Challenge to NATO

What a startling scene: New York police clear Broadway for a visiting Soviet leader's hurtling motorcade, while a giant sign flashes a hammer and sickle in lights, and welcoming citizens chant "Gorby! Gorby!" Five years ago, the only way one could have imagined such a scene was if there had been a war, won by the other side.

Mikhail Gorbachev's triumph in New York, however, before he hurried home to tend to earthquake tragedy last week, was of a much different sort. In a compelling speech before the United Nations he proposed, in effect, to abandon the Cold War. However great the West's doubts about Soviet motives or its fear of change, it is an opportunity that should be grasped, carefully.

Mr. Gorbachev pledged, without any reciprocal action by the West, to cut Soviet forces by about 10 percent within two years and to convert them from an offensive to a defensive posture. This is no mere gesture. Military analysts in the West differ on the degree of Soviet military superiority, but none can deny that the announced cuts will substantially reduce the Soviet capacity to launch an attack on Western Europe.

With Mr. Gorbachev's initiative and NATO's own proposal for force cuts now on the table, the nations of Europe are finally ready to address their costly and complicated competition in arms. Western democracies will need to find ways to let the Soviet leader's ideas energize but not stampede the process.

The NATO alliance often seems only to stumble from crisis to crisis, yet it has worked so well for so long that any radical restructuring is hard to contemplate. Why change it? Because a substantial reduction of forces in Europe would benefit both sides. The reduced cost of defense and the freeing of scarce, skilled manpower will help revitalize the Soviet economy. Substantial savings could be in prospect for the United States, too; billions of its defense dollars are tied to the defense of Europe. But that will not help George Bush with next year's budget plans. It is far too early for actual reductions of U.S. forces.

The Soviet Union will have a significant advantage in offensive weapons in Europe even after Mr. Gorbachev's proposed cuts. Still, it is notable that he says he will withdraw — and disband — some of the most threatening of these forces, including six tank divisions deployed in East Germany, Hungary and Czechoslovakia, together with artillery and combat aircraft.

For forces in Europe to be reduced in a way that preserves NATO's security, Moscow must make deeper cuts. Mr. Gorbachev's unilateral withdrawal of 5,000 tanks from the European central front and 10,000 in all should call for no reciprocal cut by the West. But it will open the way to serious negotiations next year on conventional arms.

Numbers count, but the military balance in Europe depends on far more than numbers. Quality of weaponry, training, morale, ability to bring up reinforcements, the disposition of forces and the swiftness of political and military responses are factors of great importance. If discussions with the Soviet Union focus on numbers of weapons alone, they will fail to provide stability. The point is to pursue agreements that reduce the risks of surprise attack.

NATO's strength has helped keep peace in Europe for almost 40 years. Changes in that strength should be made only with great caution. But Mr. Gorbachev dares to offer the alliance a radical new opportunity. The West dare not allow it to slip away.

— THE NEW YORK TIMES.

Other Comment

Gorbachev Raises Hopes

The Soviet leader's moves are sometimes so bold and taken in such quick succession that doubts are created as to whether he is merely a deft political magician or a brilliant and daring political reformer. One thing is sure: Mr. Gorbachev has succeeded in dynamizing world politics, thereby opening up new hopeful developments on several different levels — world nuclear disarmament, reduction of conventional arms in Europe, termination of regional conflicts and strategic realignments in the Asia-Pacific region — with the possible by-product of restoring peace on mainland Southeast Asia.

— *The Jakarta Post.*

While furthering his growing reputation as a man of peace, the Kremlin chief may also have succeeded in discouraging China, Japan and European states from increasing their defense budgets. It now remains to be seen how and when he will make his intentions a reality. For his leadership skills, he deserves a standing ovation. For his performance record, the reviews aren't in yet.

— *The Bangkok Post.*

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The Issue in Europe Is Firstly Strategic

By Jim Hoagland

BRUSSELS — The day after Mikhail Gorbachev captured the world's imagination by promising to slash half a million men from the Red Army, NATO counterattacked here by unveiling its own conventional arms control offensive. The world promptly and correctly yawned.

Mr. Gorbachev spoke in bright colors; NATO's foreign ministers uttered mud. The Russian gave high-voltage theater and a clear message; reporters needed a slide rule to work out the tank ceilings and other arms limitations that NATO dumped into its committee-written press release.

Mr. Gorbachev, of course, does not have to contend with the pulling and hauling of getting 16 sovereign democracies to agree on a unified position. Asking NATO for brilliance and clarity is like asking a dog not only to sing but to sing like Pavarotti. Perhaps we should marvel that the Greek, French, American and other foreign ministers can say anything at all in unison, and not dwell on how well they do it.

But the communications gap that the East is opening up over the West is the sign of a more serious problem than the advantages that a smart czar always has over a committee seeking a common denominator. There is a growing confusion of goals within NATO that Mr. Gorbachev is exploiting, and augmenting, brilliantly.

He is hailed on front pages as the sole architect of a new era of peace, when in fact his actions are responses to internal Soviet failures and to the West's forceful countering of the mindless Soviet military buildup of the 1970s and early '80s. (Worth noting, since it rarely is, is that the decision to counter the Soviets was essentially taken during the presidency of Jimmy Carter, then reaffirmed and carried out under Ronald Reagan.)

This is not to begrudge Mr. Gorbachev the attention his well conceived initiatives receive, although one might hope for a little less breathlessness and misting over of the eyes among working journalists. *But it is to emphasize that President-elect George Bush and his foreign policy team cannot coast on alliance and deterrence strategies rooted in the 1950s and '60s and expect to keep up with this resourceful Russian.*

The arms reductions in Europe that Mr. Gorbachev announced at the United Nations are all unilateral moves. They do not require any discussion or negotiation with the West.

But the Atlantic alliance should respond quickly with unilateral *decisions of its own*. This is an opportunity to re-examine and rationalize the nature of the U.S. military presence in Europe and to determine what concrete form the desire of Europeans to accept greater responsibility for their own defense should take.

The temptation on Capitol Hill will be to go for immediate budget savings by withdrawing and demobilizing large numbers of the 325,000 American troops stationed in Europe. This idea should be resisted; it would reduce American influence and *credibility* at a moment when Washington must make sure that American interests are protected in the most fundamental reshaping of Europe's security and political contours since the Cold War began.

The response to Mr. Gorbachev should be treated as a strategic rather than a budgetary opportunity. The initial focus should be on new reductions in the aging *battlefield* nuclear weapons, of dubious value in any case, which are stockpiled in Europe.

The United States originally introduced its nuclear artillery, land mines, short-range missiles and gravity bombs into Western Europe to counter the Warsaw Pact's large edge over NATO in conventional forces. Deeper unilateral cuts in this category than already undertaken in a long-range NATO modernization plan would provide an appropriate, as well as bright, splash of color.

The military loss would be small. Most of these battlefield weapons would be as dangerous to allied forces and civilians as to Soviet invaders. An allied diplomat who recently toured U.S. army installations in West Germany systematically asked the unit commanders if they could imagine any circumstances in which they could use nuclear artillery to military advantage. None said they could, he reports. Most indicated that they felt nuclear artillery to be unusable.

More to the point, a major restructuring of the American nuclear presence in Europe would force a reassessment of NATO's badly fraying "flexible response" doctrine. This strategy was originally worked out by the Kennedy administration and was intended to make credible the American guarantee to counter a Soviet invasion of Europe with nuclear weapons. The American response could begin at the battlefield level and then move up a ladder of escalation if necessary.

Europe's security contours are being altered not only by Mr. Gorbachev's initiatives but also by the extensive expansion by Britain and France of their nuclear forces. Within four years, London and Paris will each have more than 500 warheads and will be able to destroy more than 25 percent of the Soviet population.

It is time for an allied strategy that does not simply ignore this development, as is currently the case, but uses it to shift much more of the nuclear burden to a European force. Then it will be time to examine U.S. troop withdrawals, as a result of the strategic changes that have been decided on. *Congress should not put the conventional cart before the nuclear horse.*

The Washington Post.

'Be glad you weren't running against that guy.'

Not 'Who Is a Jew?' but 'What Is Israel For?'

By Flora Lewis

JERUSALEM — Some people here are turning to anguished and profound questions as they watch with dismay, even disgust, the cynical haggling to form a new government. These are questions that haven't been asked for a long time. The very existence of Israel seemed answer enough.

The argument over amending the law of return to redefine who is a Jew is only a surface, symbolic part. In fact, the change demanded by ultra-orthodox parties would directly affect fewer than a dozen people a year, all women, because it is essentially about whether children of women converted under less than orthodox rites should be considered born to a Jewish mother and therefore automatically Jewish.

On one level, it is grubby party politics to patch together a parliamentary majority.

On another, it is a matter of Israel's relations with the Diaspora, especially American Jewry, which predominantly follows reform and conservative rites. The amendment would be a way of saying that American Jews' diluted observance is inadequate, unworthy Judaism.

It is also about the power of the orthodox rabbinate to dictate certain decisions to this overwhelmingly secular society.

Deeper still, it is about the nature of Israel and Zionism, about the meaning of Jewishness. The influence, numbers and vocal assertiveness of the ultra-orthodox have grown in recent years.

American immigrants are among the most strident, a sharp change from the early years when few Americans came to settle. But they were among the most modern-minded, liberal, technically qualified nation-builders.

As one historian argued, the orthodox always re-emerge because they are the "hard core" of Jewry, the ones who assure its survival as a people, as a tribe. "We would be 250 million, not 15 or 20 million today, but for assimilation," he said.

It is the orthodox who cling to old rites and memories, difference and otherness, who assure the sense of being unique, he said. Some of their traditions are grafted from outside, like the black hats, caftans and side-curls of medieval Polish gentry. No matter, now they are symbols of difference.

Rabbi Yehuda Amit, a reserve army lieutenant, said something similar in making the orthodox argument for army deferments for yeshiva students and more state money for these orthodox schools. Most of the students eventually serve, but usually four months, not the regulation three years. That is resented by many secular Jews who must sacrifice much more of their lives for defense of the country.

"We are not parasites, we are saving the lives of the Jewish nation," he said. "Filling the yeshivot with eager students is as important to the Jewish state's survival as staffing" the armed forces.

This whole approach is the opposite of the Zionist idea — to free the Jews from the ghetto by establishing a land of their own, where they could be themselves without feeling alien. "You don't need to ask who is a Jew, your neighbor knows," said a retired senior diplomat. Instead, "Ask what Israel is about."

That used to seem perfectly clear. Now, with the combination of fundamentalist power and the banalization of brutality, trying to put down the Palestinian uprising, some aren't so sure.

A television producer, a man of the left who is firmly secular, puts some biblical questions to *himself*. *His father* was a German intellectual who settled in Palestine in 1920, a pioneer who helped drain the malarial swamps and cultivate the desert. "He honestly believed the slogan of 'a land without people for a people without a land,'" said the son, a hefty sabra. "He was shocked to find there were people living here, but he stayed to build the dream."

Now the pioneer's son thinks about why Moses died just before his people entered the promised land. "The Jews had a message to bring to the world, maybe that is why they had to spread out and wander. Can they fulfill their mission when they settle down to live among themselves? Is that the meaning?"

Of course, there is still humor. Some things don't change. A member of the Knesset, a rising star of the Labor Party who wears a yarmulke, which his television friend would not, says, "Here we are, the people who gave the idea of monotheism, one single God, and we have five parties in the Knesset to represent Him."

But there is also a new and deep emotional stress. Most people go on with their daily lives. Some, like a woman who works in the administration, say, "I wake up each morning with a heavy heart. What will my children become? I feel we have never had such a burden, such a crisis."

There is more pain here than makes the news.

The New York Times.

Taipei and Beijing: Don't Disturb the Dancers

By Alton Frye

WASHINGTON — Gracing a gallery in Taipei are paintings of plum blossoms, the national flower of the Republic of China. Nothing novel in the subject, yet the paintings make a political statement, for they are the work of Deng Lin, daughter of Deng Xiaoping, the leader of Communist China. Creeping cultural détente between Taiwan and mainland China has begun to accelerate.

Deng Lin's paintings are but the latest evidence of startling changes unfolding in that crucial relationship. On both sides of the Taiwan Strait, strident animosity is yielding to more patient and open-minded policies.

In conversations with Westerners, Beijing officials flavor their cautionary comments about China's claim to Taiwan with more than a touch of pride in the achievements of those Chinese who have made the island an economic powerhouse. One detects more irritation with Americans for allegedly interfering in an internal dispute than hostility toward the Nationalist foes who made Taiwan their last stand in the Chinese civil war.

Communist China's leaders are still outraged by the 1979 Taiwan Relations Act, which undergirds the nonofficial U.S. relationship with Taipei. Recent years, however, have seen Beijing shift to a more respectful tone. It argues that the reversion of Hong Kong to Chinese control will demonstrate that a policy of "one country, two systems" can work in a peaceful reunification with Taiwan.

In place of unrelieved condemnation, Beijing's emphasis on pragmatic *reforms has been* accompanied by greater appreciation of Taiwan's economic miracle — and of the potential for trade and investment funded by its entrepreneurs. Testimony to this altered attitude came in Beijing's not-so-grudging admiration for President Chiang Ching-kuo, expressed in condolences on his death in January.

That admiration was well earned. Mr. Chiang set in motion policy shifts that not only affected the character of government and society on Taiwan, but enhanced the prospects for gradual amelioration of relations between the two Chinese regimes.

In his last months Mr. Chiang relaxed emergency laws and moved his authoritarian regime toward an invigorating pluralism by allowing an opposition party to challenge the ruling Kuomintang, known as the KMT. In national legislative elections last December, 30 percent of the popular vote went to opposition candidates. Moreover, leadership in the KMT itself is moving rapidly into the hands of a new generation, and soon a decisive majority of island-born representatives will supplant holdovers from the pre-1949 mainland government.

After Mr. Chiang opened the way, trade with the People's Republic exploded to more than $2 billion a year. Taiwan now ranks sixth among the mainland's trading partners, and the mainland is fifth among Taiwan's.

Mr. Chiang also eased restrictions on travel to the mainland. More than 200,000 Taiwan citizens have returned to visit relatives not seen in decades, and the tide continues, although it is essentially one-sided. Undertakers in Taipei are doing a boom business in returning ashes to family burial sites on the mainland.

In sum, Mr. Chiang set the stage for Lee Teng-hui, the first president born in Taiwan, to pursue a more flexible policy, at home and abroad.

Mr. Lee's rhetoric toward the mainland is tough, reflecting profound suspicion of Beijing's overtures. *The Taipei government has* warned businessmen against a hasty embrace of cheaper mainland labor, stressing the dangers of depending on that market. The official posture remains "the three no's": no contact, no negotiations, no compromise.

Yet even the Kuomintang is churning with pressures to redefine that policy. A task force under Deputy Prime Minister Shih Chi-yang is planning additional steps. KMT legislators propose a $10 billion fund for mainland reconstruction and press for the right of elected officials to discuss such a project with mainland officials. One overly eager KMT elder entered reunification discussions on his own and was ejected from the party. Flouting the "no contact" rule, several KMT figures mingled with Chinese Communist Party representatives at the Democratic convention in Atlanta.

Cautiously, provision is being *made for* small groups of mainland students to visit Taiwan. Mainlanders will be allowed to visit dying relatives and attend funerals on the island. A mathematician carrying a People's Republic passport (but traveling from his post at a U.S. university) has come to teach in Taipei. And 2,000 Taiwan doctors plan to sit for a mainland examination in traditional Chinese medicine, although the exam will have no official status in Taiwan.

Students at the National Taiwan University are demanding the right to attend a Hong Kong seminar in early 1989 to explore with students across the strait "social Development and prospects in mainland China, Hong Kong and Taiwan." A two-way flow of books and reviews is in prospect.

Most visitors to the mainland come back with a vivid appreciation of the gulf between Taiwan's prosperity ($6,000 per capita income) and the poverty of their countrymen. And even as there is a rise in confidence, some anxiety persists about Beijing's refusal to rule out force as a last resort to impose reunification.

More serious as an obstacle to improved relations is Beijing's continuing campaign to isolate Taiwan internationally. For Taiwan, which has diplomatic relations with only 22 governments, economic ties throughout the world are a lifeline.

A glimmer of hope has arisen in Beijing's tolerance of a return of Taiwan to active participation in the Asian Development Bank. Accepted by the bank under the name "Taipei, China," Taiwan delegates covered the nameplates and wore Republic of China lapel pins. Although offended, the mainland representatives refrained from walking out.

If the "one country, two systems" principle means anything, a lenient attitude toward Taiwan's return to key international organizations would seem an obvious test.

Where will these inclinations lead? Certainly not to reunification in the foreseeable future. But as intransigence erodes and contacts multiply, an amicable and mutually beneficial relationship seems within reach.

The United States is more than a bystander in this courtship dance, but its main role may be a negative one: Don't trip the dancers.

The writer, Washington director of the Council on Foreign Relations, contributed this to the Los Angeles Times.

Cold War: No, It Isn't Over Yet

By Stephen S. Rosenfeld

WASHINGTON — Before it altogether evaporates in the glow cast by Mikhail Gorbachev, let me say a good word for that much-reviled phenomenon of the 20th-century political labyrinth, the Cold War.

I well understand that the Cold War is commonly cited as the contradiction of everything encouraging in international affairs, as an ugly growth which, if the United States did not contribute to starting it, nonetheless stained the United States with its militarism, paranoia and evasion of humane values.

At the very least, however, this much abused term needs to be defined more precisely than it usually is.

The term is generally used to describe Soviet-American rivalry, especially the rivalry's ideological aspect and its conduct in the days when the nasty competitive side of superpower relations seemed to overwhelm efforts to make things better.

But there is a strong historical case for reserving the term for the specific sequence in which the Soviet Union, which had promised at Yalta to let Eastern Europe choose its own future after World War II, instead reneged and imposed Soviet control.

Had the West accepted the Soviet takeover, there might have been no wider unpleasantness. But the West objected. Indeed, it could not have failed to object, once it saw that the very region for whose freedom from Nazi dominion it had gone to war in the first place was now coming under Soviet dominion.

In what ensued, the West did not always conduct itself nobly or well; far from it. But its instinct at the start was sound. The Cold War was the massive Soviet provocation in East Europe and the West's response to it. It was a necessary response and requires no forgetfulness and no apology now.

It is interesting that the Soviets, following the East Europeans' example, are finding that totalitarian socialism is a doctrine of curses and failures. This is Mr. Gorbachev's heartening breakthrough. It is what many people in the West refer to as the end of the Cold War, which, in this ideological sense, the West is now said to have "won" — although, with all of our own unfinished tasks, we should not be strutting much about it.

Almost everywhere people are turning to the economic and political ways of freedom. But it is in Sovietized Eastern Europe that the sweetest rewards of any new era are to be sought, and it is there that they are still not forthcoming.

Mr. Gorbachev announces that he will thin and alter the Soviet military presence in Eastern Europe so that it will not be perceived as threatening to Western Europe. Welcome as this is, it does not of itself indicate whether the presence remaining will be threatening to Eastern Europe, which remains physically occupied and vulnerable in other ways to Soviet power.

The answer depends on whether the Kremlin will continue to insist on the maintenance of the East European Communist regimes, of which some may still mature into governments that could meet a popular test and some probably won't. Whatever, as the collision of society and state in these countries tips into ever deeper crisis in their factories, streets and corridors of power, Mr. Gorbachev faces a range of choices, from detachment through manipulation to direct intervention, each with domestic and international consequences of its own.

Nor is it yet evident what ultimate scheme Mr. Gorbachev may have in mind for the Soviet-East European connection. I say "ultimate" because the immediate Soviet scheme, for an Atlantic-to-Urals "common European home," explicitly including a Soviet role and implicitly excluding an American role, has only a limited appeal for Eastern Europe, tucked up as it is against Soviet power.

The East European consensus, one guesses, favors a two-tier arrangement in which countries of the region assert domestic autonomy while respecting the geopolitical interests of the Soviet Union. But this neat vision, too, rests on assumptions — of Soviet tolerance for pluralism next door, of East European self-discipline — that are not ensured.

The West has scarcely begun to consider its own contribution. Mainly, it should not let steps of military de-escalation distract it from considering what political destination it eventually wants to reach. The right destination is an Eastern Europe exercising the choices it was promised at Yalta. Until that happens, it will not be time to hail the end of the Cold War.

The Washington Post.

100, 75 AND 50 YEARS AGO

1888: Bismarck Resolute

BERLIN — Count Herbert Bismarck has declared today [Dec. 11] that under no circumstances would Germany ever surrender her possessions on the East African coast.

PARIS — The Cour d'Appel yesterday [Dec. 11] pronounced judgment in the case of the succession of the posthumous works of Chopin, the musician, and declares that the mother and sister of Chopin are entitled to the ownership of his musical works.

1913: Villa at Tampico

WASHINGTON — The Mexican revolutionists, under the command of General Pancho Villa, are making a determined attack on the city of Tampico. This is the furthest south the Northern revolutionists have ventured in force, and is evidence of their increasing strength. There are said to be 4,000 troops on the rebel side, and while the Federals have the advantage of position, they are not so strong. The battle, which has lasted for more than twenty-four hours, is being watched by the inhabitants of Tampico, which contains an enormous number of foreign refugees, while British, German, French and American warships are following the progress of the battle from the harbor.

1938: Lithuanian Decree

KAUNAS — As the voting ended tonight [Dec. 11] for the membership of the Memel Landtag, apparently with an overwhelming victory for the Germans, the Lithuanian government issued an extraordinary decree "for the protection of the state," which will be in effect for six months in Kaunas and the surrounding districts. This decree, which is aimed directly at the extreme Right opposition, including agents of the Nazi régime, was issued with the claim that the government feared that agitations of extremist groups might be exploited by a foreign power, with resultant danger to Lithuania's integrity.

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Monday, December 12, 1988

PERSONAL INVESTING

BONDS

The Odds Favor Nondollar Bets

By Michael D. McNickle

New York

Currency Outlook	
Phillips & Drew 12-month forecast of dollar's value in key currencies.	
Deutsche mark	1.60
Japanese yen	118
British Pound*	1.78
French franc	5.57
Swiss franc	1.33
*Dollars per pound	

ECONOMISTS appear mostly positive about the prospects for world bond markets in 1989. But international investors' skittishness about the dollar appears to be setting the stage for particularly strong performance by securities in other major currencies.

"We may have to wait till the end of the first quarter for the real move, but 1989 is going to be an exceptional year or bonds, and particularly international bonds," says David Bordman, co-manager of the T. Rowe Price International Bond Fund.

Unthreatening levels of inflation and the moderate economic growth foreseen in the major economies for next year have created a generally upbeat attitude toward bonds for next year. But, as usual, currency trends could turn solid local gains in some markets into spectacular returns in dollar terms.

While economists differ in describing their scenarios for the coming months, virtually all see a further weakening in the dollar. By the end of 1989, the dollar could be 5 percent to 20 percent lower than its current value, according to currency specialists.

"There is a distinct possibility of a major downward shift in the dollar," agrees Mark Cliffe, Nomura Research Institute's chief economist in London. "And clearly that would point toward an outperformance by nondollar markets."

The bearish attitude toward the dollar reflects economists' pessimism that the incoming Bush administration will be able to remedy the problems of the budget and trade deficits anytime soon. "You will see the exchange markets getting increasingly worried about the inability to do anything about the U.S. budget deficit," says Howard Flight of Guinness Flight, the London fund-management group.

But such negativism does not mean that the interest rate outlook in the United States is dire. After the tightening of monetary policy through this year,

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GOLD

A Gold Rally Proves Elusive

By David C. Lanchner

New York

FRED BOGART sums up this year's gold market in one word: "boring." Inflationary fears have not been strong enough to drive prices up and recessionary fears have been too weak to push them down, says the head of gold trading at Republic National Bank in New York. Little may change later in 1989.

Few analysts foresee gold prices — currently about $430 an ounce — rising over $450 for most of next year. Even if inflationary pressures continue as most analysts predict, it may be too slow to cheer the gold market to any great extent. Many analysts expect U.S. inflation to rise slightly to 4.7 percent next year from about 4.6 percent expected this year. Still, this might be sufficient to prevent a significant downturn in prices, and possibly set the stage for a rally in 1990.

Jeffrey Christian, the managing director of CPM Group, an international precious metals research and consulting firm, cautions that recessionary fears will grow in intensity as the year wears on. He believes there is a chance gold could move lower to between $380 and $390 an ounce, although he argues that this dip in prices is not reason enough to start selling.

Indeed, most analysts expect prices to drop somewhat in the near term and believe investors should consider buying when gold declines to about $420 for a sustained period on hopes that fundamentals will look better in 1990. Even though prices are likely to remain flat for some time, "gold's downside is fairly limited," says Rhona O'Connell, a precious metals analyst at Shearson Lehman Hutton in London.

Echoing the sentiments of other gold followers, Ms. O'Connell explains that demand from the Far East and Middle East should prevent gold from dipping much below $400 an ounce for the foreseeable future. The reason is its relatively attractive price.

Gold, like all commodities, is priced in dollars. The Japanese yen, South Korea won and Taiwanese dollar have risen strongly against the U.S. currency, making gold look cheap to Asian investors. So far this year, Asian investors and buyers from the Middle East have absorbed 24.7 million ounces of gold, more than double what they consumed last year and roughly a third of all the gold sold this year, according to Mr. Christian.

Assuming a slow and continued erosion of the dollar in 1989, this level of consumption should hold fairly steady according to Ms. O'Connell and others. Of course, were the dollar to reverse and climb

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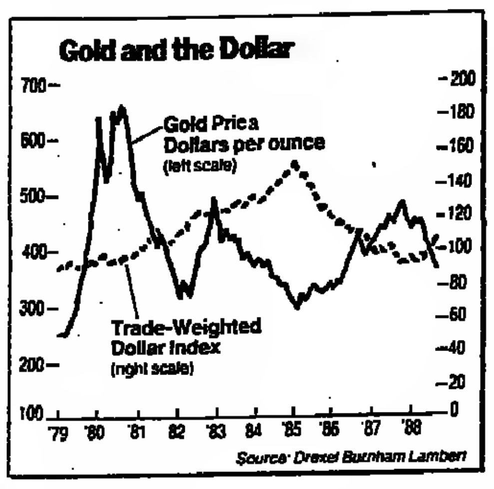

Source: Drexel Burnham Lambert

World Markets Turn a Wary Eye to Washington

TOKYO:

As market soars, Japan is an island of optimism.

The Tokyo Stock Exchange may seem inscrutable to foreign analysts, but insiders swear it moves according to its own unwritten rules. One of those rules is to kick off the year with a rally, even if good news is in short supply.

Last January was no exception. On opening day, the market struggled to overcome the lingering effects from the 1987 stock market crash. "Everyone was looking for some sign that the crash was behind us and that the new year would restore confidence in the markets," recalls a veteran of Kabuto-cho, Tokyo's Wall Street. "Instead, it looked like just the opposite."

Within a few hours after the market's close, however, Japan's powerful Ministry of Finance called top managers from the big four securities firms into a late night meeting to discuss the situation.

The next morning the ministry announced a loosening of accounting regulations for certain large institutional investors, most notably the cash-rich insurance companies whose portfolios had taken a beating in late 1987. The changes made it practical for them to hold on to large quantities of stock that they would otherwise have had to sell before closing their books in March.

Investment houses throughout Tokyo got the message. Buy orders began to pour in, and the market never looked back. Tokyo has recouped its pre-crash losses faster than any major exchange in the world and has been rising steadily since then.

The crash of 1987 is now seen within Kabuto-cho, not as a catastrophe but as a test, the ultimate proof of what many there had been saying privately

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NEW YORK:

The bears outnumber the bulls as Wall Street enters '89.


Steve Einhorn

It has been a sobering year for the stock market, to say the least. Although there is a chance that the Dow Jones Industrial may wind up the year slightly better than where it began, investors may not be so lucky in 1989. Indeed, with interest rates up and investors confidence down, few advisers build a case for a rising equity market in the months ahead.

Instead, analysts warn that 1989 may be the first year in six to see more down days than up. "Nineteen eighty-nine will be a nibbling bear market, marked by a slow, drawn-out erosion in share prices," says Steven G. Einhorn, a portfolio strategist at Goldman, Sachs & Co.

A recent study by Investors Intelligence, which tracks market sentiment, found that only 21.1 percent of about 130 investment advisers surveyed are bullish about the future, while 55.3 percent were rated as bears. Michael Burke, editor of the report, says the level of bullishness is at its lowest since 1982.

At the core of investor concern are the trade and budget deficits. Some fear that failure to rectify the twin deficits will accelerate inflation and send

Continued On Page 8

LONDON:

A hefty rise in interest rates darkens equities outlook.

As interest rates move higher, hopes for the stock market are growing dimmer. The steady rise in the base rate over the past six months — the key short-term rate climbed to 13 percent at the end of November compared with 7.5 percent in May — has market specialists worried that many British companies may find it tough going in the year ahead.

Indeed, while most strategists welcome a slower, more manageable economy, it remains to be seen whether the government's reliance on interest rates will produce the desired result. Crities of Chancellor of the Exchequer Nigel Lawson complain that his emphasis on rates to curb growth has caused dangerous delay.

The general view is that economic growth will slow to between 2.25 percent to 3.5 percent in 1989 from about 5.5 percent to 6 percent this year. And inflation, which showed signs of heating up last spring, will worsen next year partly because rate increases have made floating-rate mortgages costlier.

George Hodgson, an economist at Citicorp Scrimgeour Vickers, estimates inflation could peak at 7.5 percent next year before moderating to 6 percent by year-end.

A more worrisome development is the deficit in the current account, a broad measure of trade performance. Mr. Hodgson says the deficit will total between £14 billion and £15 billion this year with a prospect of further deterioration next year. The government's latest estimate shows the deficit at £13 billion pounds this year.

Analysts recall how news of the October's £2.43 billion deficit last Nov.

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EUROPE:

Solid gains are likely, but returns may lag 1988 levels.

Europe's Continental equity markets are expected to post good gains in 1989. And although the advance will probably be less impressive than this year's, analysts say these bourses are still likely to outperform New York and London.

Instead of the increases in corporate earnings that attracted investors in 1988, analysts are betting that next year's advance will be helped along by declining interest rates. Alistair Ross Goobey, James Capel's international investment strategist, believes rates will peak sometime in the first half and then be free to edge lower in response to a weakening dollar.

John Sandbach, European research manager for SBCI Savory Milln Ltd., sees the dollar falling to a 1989 average of 1.70 Deutsche marks from about a 1.77 this year. "A lot of what happens here next year will depend on the U.S. market, not European factors," he says.

In local currency terms, Mr. Ross Goobey believes the best markets may generate returns of 15 percent. "Our outlook for Europe in 1989 is slightly less positive that it was for 1988," he says.

Over the past 12 months, Continental markets have showed an average gain of almost 18 percent, according to Savory Milln.

Measured in dollar terms, Belgian equities were up 33 percent, while French and Spanish stocks have gained 27 percent. Dutch shares advanced 18 percent, and West German shares 13 percent.

Only Italy, up 8 percent, and Switzerland, 4 percent, lagged the 9 percent gain of the Standard & Poor's Composite index.

Of course, a host of local conditions will create varied dynamics and opportunities in the major continental markets.

Relatively immune to dollar fluctuations, the Spanish market should

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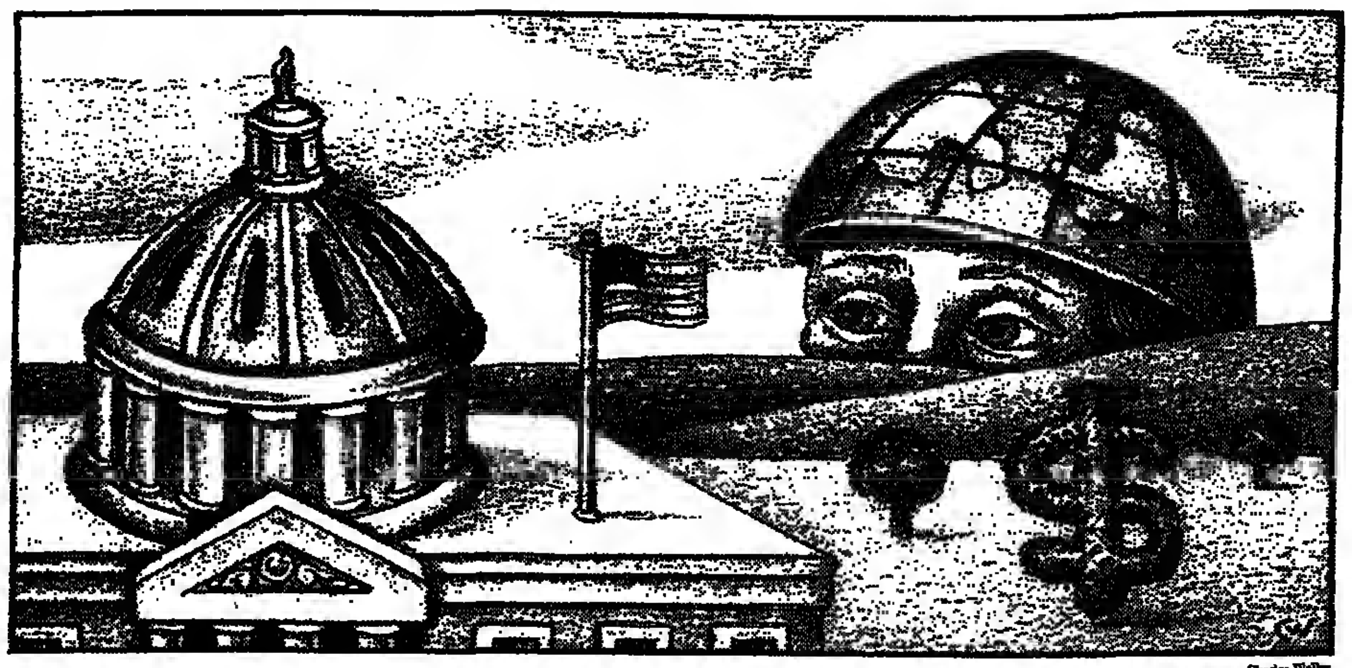

Charles Waller

GEORGE Bush will not take up residence in the White House until January, but global markets are not waiting until next year to test his mettle. The occasional harrying of the dollar by foreign exchange speculators over the last few weeks is just one sign of the anxiety about the future of U.S. policy and its implications for the world economy.

Failure to come up with a persuasive deficit-trimming package could well make 1989 a difficult year for investors.

The dire scenario has by now become familiar: Lacking a convincing signal of Washington's resolve, the markets do the administration's dirty work by hammering down the dollar and forcing higher interest rates. Recession follows, denting economic prospects in all corners of the globe.

Already, given the perceived fragility of the dollar, many international investors are entering the new year with Wall Street underrepresented in their portfolios. With European currencies and the yen positioned to benefit from any setback to the dollar, investors sense less risk in Continental and Japanese securities.

They probably will continue to do so until receiving a clear message of Washington's intentions.

Not surprisingly, the accompanying survey of world stock markets finds confidence in Japan and cautious optimism in Europe. By contrast, the mood is somber in the United States and in Britain, where interest rates have risen in an effort to rein in fast growth.

In choosing between stocks and bonds, many global strategists are tending to stay light on equities for the time being. For example, Phillips & Drew, whose so-called benchmark global portfolio is 60 percent in equities, currently recommends only a 45 percent allocation to shares.

Generally, the firm has advocated taking some profits in European markets and using the proceeds to beef up the Japanese portion and nibble at attractively priced U.S. sectors.

Phillips & Drew would put 35 percent of the portfolio in bonds — the same weighting as the benchmark portfolio. It recommends a cash element of 20 percent versus the 5 percent liquid portion of the benchmark portfolio. The model portfolio for dollar-based investors devotes 45 percent of the stock portion and 45 percent of their bond portion to nondollar securities.

The reticence about equities reflects a growing realization that corporate profits will be squeezed in 1989 after this year's strong growth. This pressure on profits in the major industrialized countries stems largely from the quickening pace of wages increases, higher interest costs and generally slower economic growth.

Merrill Lynch's global strategy assumes that the 18 percent jump in Japanese corporate earnings for this year has already been reflected in share prices, and that next year's increase may only be 5 percent.

But Merrill believes earnings could hold up a bit better in Continental Europe because companies there recovered later from the negative effects of the strengthening in their home currencies.

For U.S. companies, Phillips & Drew believes profit growth next year could only be 7 percent compared with over 25 percent this year. Similarly, Salomon Brothers recently told clients that British forecasts for a 15 percent increase in profits were far too high, suggesting that actual earnings growth would be about half that.

With earnings momentum weakening, equity investors will be extra-sensitive to any signs that the expected easing economic growth in the seven major industrial countries to a forecast 2.6 percent next year from this year's estimated 4 percent might accelerate into a recession.

Any sharp, untimely fall in the dollar would likely be taken as a harbinger of hard times, sending investors rushing for the exits. □

1989: International Investors Favor Japan and Europe

TOKYO:

Continued From Page 7

for some time: That Japan is the world's strongest economy and Tokyo its safest stock market.

With only a few weeks to go in 1988, the Nikkei 225 index has already breached the once-unimaginable 30,000 mark before profit-taking drove it back a bit.

Some observers think 1988's performance will be a hard act to follow, but local analysts and fund managers disagree. "Everything looks very good for at least the first half of the year," notes Ed Merner, director of Schroder Investment Management. "While no one can say for sure what lies in store, the economy is expanding, and I don't see any big problems on the horizon."

Jeff Uscher, head of research at Smith New Court Far East Ltd., says: "1989 will be a relatively strong, buoyant market. We expect about an 8 to 10 percent rise in the index, but nothing spectacular."

A fund manager at Lazard Japan Asset Management echoes his sentiment: "We see the market remaining basically firm, continuing to be domestically led and driven by themes like consumption. We might best call it quietly bullish, with the Nikkei index rising to perhaps 33,000."

At GT Management (Japan), fund manager Marshall Auerback is bullish, but hardly quiet. "I think the TSE will go to 35,000 sometime next year," he says with confidence, and not a few Japanese analysts would call him conservative.

Such a gain is bound to attractive foreign investors. "Assuming 3.5 to 4 percent GNP growth next year, the Tokyo market will account for about 45 percent of the global equity market et the end of 1989," according to Keiji Yasuda, general manager at the New Japan Securities Research Institute.

Which stocks will benefit? Mr. Yasuda points out that domestic demand stocks have been strong market leaders for a few years and will probably continue so into 1989. "One major theme that will remain strong next year," he says," is the Tokyo Bay Redevelopment Project, a huge plan that includes several industries, such as general construction, real estate, railways steel, warehousing, leisure and financial services."

Lazard sees potential in sectors such as retail, railways and financials.

Mr. Auerback at GT Management also thinks the big Japanese banks are worth keeping an eye on in 1989. He believes the city banks will benefit from a decline in U.S. interest rates that be believes will occur in the first half of next year. "They're very leveraged to any falls in interest rates and under-owned by most institutions, both domestic and foreign," be says. "In addition, the theme of financial deregulation will become much more prominent next year and the city banks stand to benefit."

Although believes the entire sector will advance, he especially favors Sumitomo, Fuji and Sanwa. Mr. Auerback also likes the Industrial Bank of Japan. IBJ was basically forced to back the reconstruction of smokestack industry in Japan about 3 or 4 years ago, he notes, and their earnings suffered. Now that these companies are turning in good earnings, IBJ could be "the leading beneficiary among the banks," says Mr. Auerback.

Ed Merner sees other winners in the coming year. Thanks to strong consumer spending, he says companies like Ito Yokado, a Tokyo based retailer and parent of 7-Eleven, Denny's restaurants and CVS drugstores in Japan, should do well.

At current price levels, he believes many of the technology and pharmaceuticals are attractive. "I'd watch Dai-ichi Pharmaceutical, for example. Among the growth companies, I like Toyo Information Systems." Toyo is an Osaka-traded computer software firm affiliated with the Sanwa Bank group.

Smith New Court's Mr. Uscher adds to the list defense related issues, "not only the big favorites such as Mitsubishi Heavy Industries, but also smaller firms like Japan Aircraft."

He also believes exporters are the best value right now, though he acknowledges that the market has not warmed to them as yet. □

David Russell

Jane Hakham, manager for global investments at Gartmore Management.

Looking Beyond the Major Markets

By Marybeth Nibley

London

JANE HAKHAM has been thinking small lately. As a manager for global investments with Gartmore Fund Managers Ltd., it is her job to spot opportunity around the world and she has been particularly successful with emerging markets.

As of Dec. 2, Gartmore's Frontier Markets Trust, for which she acts as lead manager, was up 20.7 percent for the year compared with a 20.3 percent rise in the Morgan Stanley world index. That outperformance is significant given that the fact Gartmore fund does not include Japanese stocks.

"Basically, I have to do a lot of homework," says Ms. Hakham, who at 28 is the youngest — and only woman — director at Gartmore Fund Managers Ltd.

The homework required to oversee investment in new markets is complicated by the difficulty of obtaining information. To the extent it is possible, she tries to apply the same rules to the emerging markets that she uses in assessing major ones. Cultural, political and other variables limit the amount the traditional approaches can be used.

Accessibility is e key criterion in her view. If e company is so small that its shares are too few to have any impact on the fund's performance, then she forgoes the stock. She usually sticks with major companies in emerging markets.

And rather than having her portfolios invest in funds that comprise a variety of a country's stocks, e practice that saves trouble but costs more, she prefers to make her own investments directly. However, she buys into the funds when there is no other way to gain access to a promising market, such as South Korea.

One way of indirectly getting access to emerging markets that she favors is to buy stocks of companies that have extensive operations in developing countries but are listed on a major market. An example of such e company would be Polly Peck which has a London quotation, while its business is based in Turkey. From modest beginnings, the company has grown into an international trading house with interests in textiles, tourism, agriculture and consumer electronics.

"What that does is give the fund a bit more stability," she says. Also, she acknowledges that it provides liquidity if she is forced to sell quickly.

That proved to be a very good policy following the crash, when fledging markets suffered more serious damage than mature ones. Gartmore, like other unit trust management companies, experienced heavy redemptions by unit holders after the October 1987 crash and was forced to unload holdings to raise liquidity.

Ms. Hakham uses "top down" strategy, making asset allocation decisions based on broad market themes rather than on sectors of business activity. Portugal is among her favorite emerging markets.

Similar to what has occurred in other suddenly fashionable emerging markets, too much money was chasing too few stocks, so traditional analysis involving price/earnings multiples no longer applied, according to Ms. Hakham.

In the case of Portugal, the market plunged in the 1987 crash and has not really recovered yet. But after a visit to Portugal earlier this autumn, Ms. Hakham decided the fate suffered by its market was unjustified. She cites the country's economic prospects and stable political regime, which tends to be pro-business and supportive of market development.

She also pursues a top-down strategy when surveying more established markets. Her current thinking on the established markets favors Japan and Europe. She is bearish on the United States and Britain.

The allocations in Gartmore's Capital Strategy International Growth Fund reflect these opinions. About 43 percent of the funds assets are invested in Japanese shares, slightly more than its weighting in world market indexes. By comparison, U.S. stocks account for just under 15 percent of the fund's investments, less than half its customary weighting.

Although the proportion in British shares — about 12 percent — is fully-weighted, she expects to reduce exposure and take profits on British shares when opportunity allows.

Elsewhere, the fund has taken an aggressive stance toward Europe, where Ms. Hakham believes the markets have underperformed. Four percent is in France, 3.5 percent in West Germany, 4.8 percent in Italy, 1.8 percent in Spain and 1.5 percent in Switzerland.

The remainder includes 4 percent in Hong Kong, 2.5 percent in Australia and ebout 1 percent in Thailand. Although the cash component of the $28.4 million fund is small, Ms. Hakham warns it might rise to as high as 10 percent over the next few months. □

Comparing P/E

Price-earnings ratios for selected markets

Japan	54.3
United States	11.4
United Kingdom	10.6
West Germany	15.0
France	11.8
Hong Kong	11.5
Australia	10.7

Source: Morgan Stanley Capital International

NEW YORK:

Continued From Page 7

the U.S. dollar into another steep decline. This, in turn, would force interest rates higher and create recessionary pressures.

"With the tremendous debt at all levels of the U.S. economy, a recession could degenerate into something quite scary," laments Jean-Marie Eveillard, manager of the $115 million SoGen International Fund.

Even if the worst scenario does not unfold, some strategists warn that wary domestic and foreign investors are likely to remain at bay until there are signals that the dollar is stabilizing. Moreover, the new Republican administration will have to demonstrate its ability to overcome the political gridlock with the Democratic Congress to find a credible solution to reduce the deficit.

Martin D. Sass, president of M.D. Investor Services, maintains that even if the Bush administration manages to reach some kind of compromise, the process will take several months to achieve. "Investors are going to be edgy until it's resolved," he says.

Also worrisome to investors is the amount of corporate debt piling up as a result of this year's mega-deals.

Mr. Sass says, "Investors fear a glut in the junk bond financing market and a possible backlash against takeovers by the new administration." As with the deficit, Mr. Sass notes that any plausible solution will take time to develop and implement. Investors are likely to remain nervous as long as there is uncertainty.

Fears of rising inflation alone are likely to persuade investors to favor bonds over shares, analysts say. At current levels, short- and long-term bonds offer a comparable rate of return with less risk than stocks.

"Long-term government bonds are about as close as you'll come to an investment that's like shooting fish in a barrel," says Jon S. Fossel, president of Oppenheimer Management. "The equity markets won't be compelling until those rates come down dramatically."

Martin Sass

Moreover, many specialists expect the stock market to feel an even greater pinch as corporate earnings fail to meet expectations. Goldman's Mr. Einhorn observes that the growth rate in corporate profits has stalled and that the number of downward revisions of earnings estimates by both companies and analysts is on the rise. "Shares tend to perform poorly in the 12-month period after a peak," he says. Furthermore, Mr. Einhorn estimates that, on a valuation basis, shares are 12 percent to 15 percent higher than they should be in relation to the current level of interest rates and inflation.

Still, even the most cautious investment advisers say there is money to be made in next year's market. Evidence of an imminent recession could be good short-term news, some say, because investors who have stayed out of the market from fear of recession will want to quickly position their portfolios to take advantage of the recession's end.

For this reason, Geraldine Weiss, editor of Investment Quality Trends, a newsletter based in La Jolla, California, expects a brief rally of no more than 20 percent in the first half of next year. However, after that she says, "The market will turn down and establish new lows, going possibly as low as 1,500 in the next few years."

Ms. Weiss advocates blue chip stocks that allow investors to collect dividends while waiting for capital gains. "These are companies that have paid dividends through so many economic vicissitudes and still reward shareholders." Bristol-Myers and Pfizer are among her picks.

Mr. Einhorn also believes that large, established companies that have had steady growth and modest price-to-earnings multiples are those most likely to withstand the coming economic environment.

He sees the Dow in a trading range of 1,800 to 2,200 for the next 12 months, with inflation rising to roughly 5.25 percent, economic growth near 2.5 percent and corporate earnings on the Standard & Poor's up about 8 percent. "It's going to be a slow year," he says, "but not necessarily recession-like."

ACCORDINGLY, he recommends a portfolio weighted 25 percent in cash, 30 percent in one- to three-year government bonds, and 40 percent in equity. He favors such drug stocks as Merck and Co. and Abbott Laboratories, and such consumer growth stocks as McDonald's Corp., Anheuser Busch and Walt Disney Productions. As an inflation hedge, he suggests a 5 percent position in real estate.

Dean Witter's investment strategist, John Connolly, is more optimistic about next year. He sees the Dow at a minimum of 2,300 and suggests that now is the time to take advantage of the prevailing negative sentiment to pick up good values at bargain prices.

He recommends stocks that might benefit from a slowdown and that are sensitive to interest rates. Quaker Oats, PepsiCo, Home Depot, American Express, Great Western Financial Corp. and J.P. Morgan are just a few of the companies that meet his criteria. □

Cynthia Catterson

EUROPE:

Continued From Page 7

outperform other continental bourses next year, according to Judith Beresford, an analyst with James Capel. She said continued strong growth in business investment, possibly a 7 percent to 8 percent increase in 1989 compared to 9 percent growth this year, will benefit most companies.

Also aiding the market, she says, is the expected strong growth of mutual funds and pension funds. Partial privatizations also should add badly needed liquidity to the market. The government plans to sell off large blocks of stock in Iberia, the national airline, and Repsol, the oil company.

Ms. Beresford's favorite picks are in the building sector. They include: Dragados, a construction company; Asland, a cement concern; Christalera, a glassmaker; and Vallehermoso, a real estate firm. She also is keen on Mapfre in the growing insurance sector.

The Italian market, says Savory Milln's Mr. Sandbach, has considerable potential because of strong economic fundamentals, such as an anticipated 3.6 percent rise in gross domestic product. "The Italian market has been a dog for a considerable time," he says. "The improved outlook should be reflected in the market in 1989."

Savory Milln's top picks in Italy include Fiat, the publisher Mondadori, the insurance company Generali and the investment bank Mediobanca.

The French market, whipped into a speculative frenzy this year by a host of real and imagined takeovers, is due for a slowdown as business investment, corporate earnings and economic growth cool. "The market is overbought," says Ian Furnival, analyst with Phillips & Drew.

Another factor is the big question mark hanging over the franc. The French currency has come under pressure several times this autumn, and though the government says it is committed to maintaining a strong franc, analysts expect it to be devalued next winter or spring as part of a readjustment within the European Monetary System.

"Once that is out of the way, the market will react positively, but leading up to it, the market will suffer," Mr. Furnival says.

Better-than-average performers in the market next year, Mr. Furnival says, will be Schneider, a factory automation equipment concern; Eurocom, an advertising firm; BSN, and Beghin-Say, food companies; CMB, a packaging concern; and Elf and Total, both oil companies.

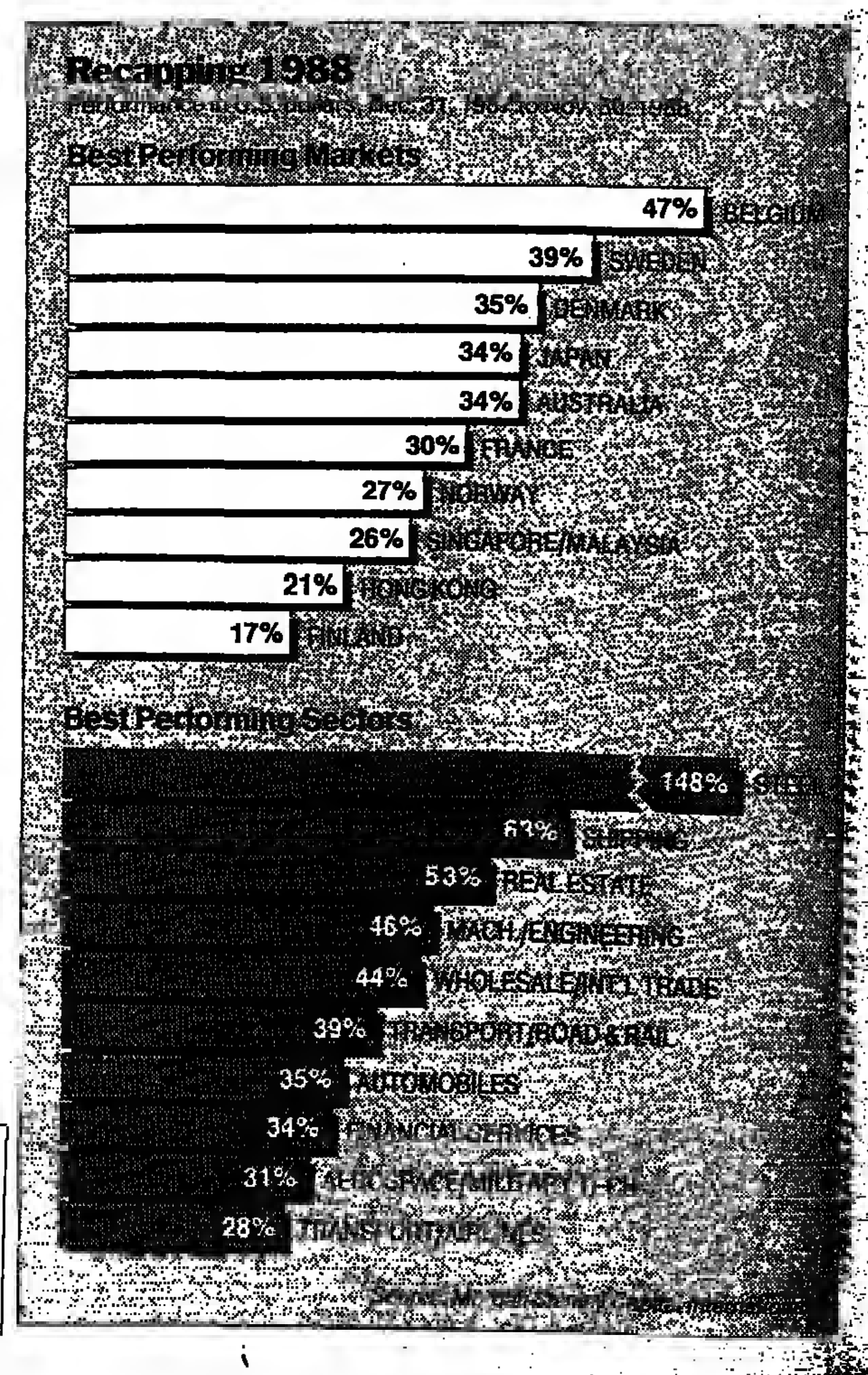
The Frankfurt market is also headed for a trough, according to Mr. Ross Goobey. He believes corporate profits might grow 5 percent in 1989, about half this year's pace.

Peter Hadden, manager of a European fund for Ivory & Sime, says he has adopted a more selective approach to German and Dutch stocks. "This year, with the Deutsche mark-bloc countries benefiting from a strong economic environment, you bought blue chips, but next year we'll have slower growth and it will be very difficult," he concedes.

In West Germany, Mr. Hadden favors Linotype, an electronic publisher, and AGIV, a construction and transportation concern. In the Netherlands, he likes Hagemeyer, a consumer goods trading company.

Some analysts believe 1989 could be the year of the Swiss, not because of economic fundamentals but because of the possible surge in foreign investors following the decision by Nestlé to treat domestic and foreign shareholders equally. "Nestlé sets a precedent that other companies may follow," says Mr. Ross Goobey. "If you're looking for a surprise, the Swiss market could be it." □

Jacques Neher



ASIA'S SMALL MARKETS

A Healthier Climate for Equities

Slower Asian growth may be a blessing.

By Coleen Geraghty

Hong Kong

AFTER sprinting through 1988, the Asian economies will slow down to a steady jog next year, a pace that bodes well for healthy advances in individual share prices and equity funds.

From Seoul to Singapore, the pulse of the region beats with a strength and vitality derived from low inflation, high employment and increasing foreign investment.

"Everything looks very positive for Asia," says Ophelia Tong, assistant director of Scimitar Asset Management, a division of Standard Chartered Bank. "People expected a recession in America, and it never happened. They expected an export slowdown from Asia, but barring a few exceptions, that did not happen either."

The exceptions are Hong Kong and Taiwan, whose exports to the United States contracted in 1988, but whose robust consumer demand compensated for declines in external demand. In fact, analysts said the sloping growth rates may be the perfect antidote for the inflation that threatens to overheat these two small economies.

Asia's four so-called Little Dragons — Hong Kong, Singapore, Taiwan and South Korea — together with neighboring Malaysia, Thailand and the Philippines, are still vulnerable in varying degrees to a slowdown in the U.S. economy. They are export-dependent, and America is their largest market, typically taking 35 percent to 40 percent of foreign shipments.

But as Americans gradually reduce their intake of Asian products, the economies of Southeast Asia, Taiwan and South Korea have been astute enough to seek new markets. Exports from the Little Dragons to Japan, for example, are rising at about 45 percent a year.

This shift in export patterns has traumatized certain sectors, such as Hong Kong's toymakers and Singapore's electronics industry. But corporate profits will remain generally healthy throughout Asia, analysts agree. They believe stock markets will continue to recover from the effects of Black Monday as the world moves into 1989.

HONG KONG: Undoubtedly the favorite regional market of foreign investors before last year's crash, Hong Kong been unable to recover as quickly as other markets. On Oct. 19 of this year, the Hang Seng Index was 32 percent below its Black Monday level.

"Hong Kong was perhaps too heavily weighted in institutional portfolios before the crash," observed Scimitar's Ms. Tong.

Investors looking only at the colony's slower export pace and rising inflation might tend to shun the market, when, in fact, Hong Kong equities offer remarkably good value, she said. Based on 1989 earnings, the Hang Seng index is trading at a price/earnings multiple of about 10.

Property development and management companies are particularly undervalued, given the steady rise in rental fees, brisk demand for residential flats and the record prices paid at recent land auctions, Ms. Tong said.

County NatWest's Anthony Teoh is also bullish on the property sector, favoring blue chips such Hongkong Land, Cheung Kong, New World Development and the Wharf Group.

Asian Growth May Slow in '89

Phillips & Drew estimates of real GNP growth in 1988 and 1989.

	1988	1989
Hong Kong	6.1%	4.6%
S.Korea	9.6	7.4
Singapore	9.6	6.1
Malaysia	8.4	5.9
Taiwan	7.0	6.2
Thailand	8.5	6.3
Philippines	6.5	5.2

On the negative side, the market tends to react in volatile fashion to real or perceived changes in Chinese politics, particularly those relevant to Hong Kong's status after British sovereignty ends in 1997. Investors should also watch for signs that the government is preparing to sever the direct link between the Hong Kong and U.S. dollars. Although officials insist that the link will remain intact, there has been pressure from top level Chinese businessmen to tie the Hong Kong unit to a basket of currencies.

SOUTH KOREA: After going into the doldrums during the summer Olympics, the Seoul market has bounced back strongly in the last several weeks. The Korean market seems on its way to rivaling Hong Kong as the second largest market in Far East after Japan.

Part of the boom can be traced to the government move away from requiring financing institutions to take up issues of its so-called monetary stabilization bonds. That freed up liquidity for investment in equities. Inflows of cash will also be the key to South Korean market performance next year, analysts say.

If liquidity remains high, "then we should see another good year in 1989," says Peter Thorn, W.I. Carr representative in Seoul. The market has added allure for dollar-based investors who stand to gain from the Korean won's expected 10-percent appreciation against the U.S. currency next year. Currently, the market is trading at a price/earnings multiple of just over 20.

Although restrictions on direct foreign equity investment will not be relaxed substantially until about 1992, the government will allow the establishment of new trust funds and encourage the expansion of two existing funds, the $100-million Korea Fund listed on the New York, and the $60-million Korea-Euro Fund listed in London. As a group, Korean unit trusts are trading at close to 50 percent premium of their net asset value.

TAIWAN: The Taipei market climbed more than 6,000 points this year to 8,789.78 this year before crumbling in September after a government announcement of plans to tax stock profits beginning in 1989.

The apparent withdrawal of many large investors had pulled the index down to 6,310.62 on Dec. 5. Though a few analysts argue that the restrictions that keep the increasing well-off Taiwan middle class from investing abroad seem likely to force money back into the market, most observers say the market remains very risky. Despite the return downturn, the Taipei market trades a stratospheric 50 times earnings.

"We are not bullish on Taiwan simply because we believe the gains cannot continue," Ms. Tong says. "The market should come off to at least 4,000 when the capital gains tax comes into effect next year."

SINGAPORE: A booming tourist trade and a rising export trade with Japan will provide the major fillips to the Singapore economy in 1989.

In such a climate, Singapore International Airlines has become the darling of fund managers who believe this small city-state is enjoying an economic renaissance after the recession of 1985-86. The company's interim results surpassed expectations, foreshadowing a 1989 pretax profit increase of 11 to 15 percent, analysts say.

Jardine Fleming Securities likes Jurong Shipyard as a play on the ship-repair sector, and Electro Magnetic, a small, high-growth firm aiming to become a VHS video cassette manufacturer. Overall, the market trades at a reasonable 5.7 times earnings.

MALAYSIA: The steady depreciation of the Malaysian ringgit is expected to invigorate Malaysia's export sector in the coming months. Faced with robust demand and depleted inventories, manufacturers should boost output, analysts said.

In this recovering market, Jardine Fleming prefers blue chip stocks like Sime Darby and Malaysian International Shipping.

"The medium outlook for the Singapore and Malaysian stock markets is still very favorable," according to a Jardine analysts. "The markets are backed by strong fundamentals, and the downside risk is limited." However, Malaysia is trading at relatively high price-earnings ratio of 18.5, based on estimated 1989 earnings.

THAILAND: After a strong runup in the first half of 1988, the Bangkok stock market has languished, a victim of a round of interest rate increases.

But the well-balanced economy is expanding at a brisk pace, and analysts believe it is just a matter of time before several foreign funds created this year to focus on the Thai market start buying. The market is trading at a fairly reasonable multiple of 9.3 times forecast 1989 earnings.

"The Thai economy is growing at such a fast pace that infrastructure-related stocks have to be among the best buys," says Thornton Management's director, Peter Everington. He recommends Siam Cement, although its shares have already quadrupled this year.

"In small markets like Thailand, it pays to know the fundamentals and then go for quality," he advises.

THE PHILIPPINES: Mr. Everington, whose firm manages a fund specializing in Philippine shares, believes the Manila market offers "fantastic opportunities" if an investor stays with high-quality shares. His favorites include Philippine Long Distance Telephone and San Miguel Brewery, which have long been the favorites of foreign fund mangers. Philippine Long Distance also trades on the American Stock Exchange.

Although huge foreign debt and a trade deficit forecast at more than $1 billion will hamper the administration's efforts at recovery, burgeoning consumer demand is a bright spot in the economic picture.

Trading at a 4.6 times price/earnings ratio (based on 1989 earnings projections), the Philippine stock market is regarded as holding little risk and good value. □

LONDON:

Continued From Page 7

25 prompted heavy selling that wiped more than £8 billion off London share values and stripped more than 38 points from the FT-SE in the session. The index continued to sag as December opened, hitting 1,765 on Dec. 2, the lowest level since mid-September.

As if these domestic concerns were not enough, market specialists also are worried about events in Washington as the Bush administration deals with the budget deficit. How his actions are perceived on Wall Street, especially in terms of averting a crisis of confidence in the dollar, will influence activity in London, analysts say. "In the short term, equities are weighted down by concerns about the dollar," says economist Bill Martin of UBS Phillips & Drew.

Given the economic uncertainties and the fact that higher interest rates are adding to the appeal of money market investments, analysts expect British equities to remain in a tight trading range.

Mr. Hodgson sees a range of 1,750 to 1,850 for the Financial Times Stock Exchange index of 100 leading shares. The average price/earnings multiple for the 488 industrial group shares, excluding oil and gas, will be 10.5, he says, with a yield of 4.6 percent in 1989. By comparison, the measures were 11.6 percent and 4.2 percent in late November.

Chris Chaitow, a technical analyst at Morgan Grenfell Securities, says his analysis places him in bear territory. He thinks London embarked on the second leg of the bear market in the closing days of November. The FT-SE will decline to 1,650 sometime in the spring or summer of next year, he says.

A fundamental assumption underlying Mr. Chaitow's outlook is that corporate profits are under attack. High interest rates will clobber consumers and hurt many companies, such as retailers.

The advice for investors, Mr. Chaitow says, is to sell cyclical stocks that have experienced strong margin improvements over the past few years. □

Marybeth Nibley

COLLECTING

1 A military carousel horse that sold for $63,800 in April 1988 at Guernsay's San Francisco auction. It is one of several that are similar to Daniel Muller's Military statue.

2 A cel from Walt Disney's "The Orphan Benefit," with Mickey Mouse peering onto the stage. It sold for $121,000 at a Christie's auction on Nov. 10.

Three Markets to Watch in 1989

Prices are likely to continue to rise higher next year.

By Cynthia Catterson

New York

THE ART and antique world has grown so accustomed to the mega-sale that a million-dollar price tag hardly rates headlines. These days, it takes tens of millions to raise the eyebrows of the gallery and auction set.

"It's as though art fever has caught on worldwide," says Victor Wiener, director of the Appraisers Association of America. "A few years ago, if a work of art sold for more than a million dollars, it was big news. Today, a million-dollar sale almost draws a yawn."

All but the ultra-rich and big corporations have thus been priced out of the traditional markets of Old Masters, contemporary and modern art, and some periods of antiques. As a result, Mr. Wiener says, collectors have turned to niche markets, where prices are rising but quality can be found at less than astronomical prices.

"Smart collectors know one thing: If you buy well, you'll never live to regret it," he says. "Rather than buying mediocre Impressionists, they aim for the best that their resources will buy in other fields."

Particularly sought after are objects where an increasing awareness of their rarity is likely to drive prices higher. Collectors also seek items that seem appropriate for display in a residence.

The lively, carved horses that adorned fairground carousels, though standing 3 to 5 feet (.9 to 1.5 meters), offer dramatic and colorful possibilities. Many of the richly detailed equine figures date from the early 1900s and are enjoying another wave of interest, according to Arlan Ettinger, president of Guernsey's, a New York auction house.

In the last few years, prices for carousel artwork by carvers such as Daniel C. Muller, Charles Carmel, Frank Caretta and the Dentzel brothers have risen from 100 percent to 400 percent.

"Six years ago, these things averaged $8,000 a piece," recalls Mr. Ettinger, who sold in June a piece designed by Mr. Muller for a record $64,000. An upcoming December sale has drawn more than 700 inquiries, he says, a great deal more interest than has been generated by any previous carousel art sale.

Mr. Ettinger explains the burst of interest as a realization that most of today's merry-go-round animals are fiberglass and metal reproductions of the original works. "People are realizing that the old, hand-carved animals have become an endangered species," he says.

Animation art is another area where the growing sense of the pieces' rarity is helping to drive up prices. Many of today's animated films are brought to the screen largely with the help of computerized graphics. But the earlier cartoon movies were painstakingly particular creations in which artists hand-painted individual reverse-colored images on about 1,400 clear sheets of celluloid or acetate to create just one minute of film.

Today, those 10-by-12 inch (25-by-31 centimeter) single sheets, known as cels, as well as the animated drawings, storyboards and watercolored backgrounds that went along with producing each film command from $300 and up. An original black and white cel of Mickey Mouse from Walt Disney's 1934 film, "The Orphan's Benefit," for example, recently sold at a Christie's East auction for $148,500, 10 times the estimate.

That set a record for the highest price paid for an animation cel. What's more, the amount was more than double the record-breaking sum paid for a similar quality Mickey cel from the 1933 short called "The Mad Doctor," which Christie's East sold in June for $63,800.

"Animation art as Walt Disney knew it is becoming extinct," says Joshua Arfer, director of animation art at Christie's East. "Collectors are beginning to realize that not only are these things rare commodities, they are as close as you can get to owning a piece of a favorite cartoon."

In general, Walt Disney characters and images of Mickey Mouse, in particular, are in the greatest demand. Black and white cels are rare and more valuable than color. Cels sold with the backgrounds that were used in the film are the scarcest, says Mr. Arfer, because a single background would be used to accompany as many as 5,000 cels.

Preliminary drawings and storyboards are also gaining interest among collectors who look for a less expensive way to accumulate animation art, he adds. A sketch of Pinocchio recently sold for $800, for example, and the Snow White dwarf, Dopey, sold for $1,000. A record $11,100 was fetched for a 1932 pencil drawing of Mickey Mouse dangling over a boiling kettle from the film "Trader Mickey." The estimate for that image had been $1,000 to $1,500.

ONE OF THE newest areas of collecting that bears watching is ceramics designed by established 20th-century artists known for their work in other mediums.

In the past, a handful of these ceramics were included in larger painting and sculpture sales.

But in October, Sotheby's held in London the first exclusive sale of jugs, plates, tiles and vases fashioned by such artists as Pablo Picasso, Georges Braque, Marc Chagall, Joan Miró and Fernand Leger. All but 11 of the 104 lots were sold, generating a total of $1.2 million.

According to Melanie Clore, the director of Impressionist and Modern Art at Sotheby's London, who was in charge of the ceramics sale, such pottery gives collectors an opportunity to own a work created or designed by a modern master.

Although the highest price paid was a record $125,000 for a hand-painted plate by Picasso, many pieces were estimated as low as $1,000. These prices are relatively modest, considering that a single painting by Picasso entitled "Motherhood" sold for $24.8 million at a Sotheby's Impressionist sale a month later.

Other areas of ceramics are also showing steep price rises. Cyril Frankel, head of contemporary ceramics at Bonhams auction house in London, reports that sales of pottery made by master ceramicists since the early 1920s have continued to draw heavy interest from collectors.

Mr. Frankel says that prices for pots thrown by famous craftsmen such as Bernard Leach, Lucie Rie, Hans Coper and Elizabeth Fritsch have tripled in the last three years. Adding to the enthusiasm in the market in the last year, he says, was the issue by the British Post Office of a series of four stamps bearing the image of each potter, to commemorate the centenary of Mr. Leach's birth. □

3 Melania Clore of Sotheby's holding a Picasso plate with a portrait.

FUNDS

Country Funds Can Frustrate

By David Lanchner

New York

CLOSED-END funds specializing in the stocks of a single country may tempt investors who want to cash in on the potential of international markets. Yet those who take the plunge into some of the U.S.-listed funds may experience frustrations.

The problem is the erratic way the funds, which have fixed share bases, track the movement of the underlying assets. Share prices have often fallen sharply even as the underlying value of the assets has surged. Of the five so-called country funds introduced this year on U.S. markets, all have seen their net asset value rise and their share prices fall.

Though proponents argue this offers an opportunity to buy the underlying assets at a discount, these gaps in many cases have often proved stubbornly resistant. The bottom line is that investors can be right about the prospects of the underlying market and still not be able cash in because the stock price does not reflect the movement of the underlying assets.

The reverse can happen as well; in a few popular funds, the share prices hover at intimidating premiums over the asset value. Of course, sometimes share prices will move roughly in line with the fund's investments, but this happens all too infrequently for the comfort of some investors.

"The funds are a real product of bull market psychology," acknowledges Michael Porter, an analyst at Drexel Burnham Lambert. Individuals account for much of the trading in the 17 so-called "country funds" listed on U.S. markets. Few of the funds have the kind of institutional following that would insure steadier performance. That lack of support coupled with the funds' thin market capitalization can mean erratic movements.

"Because these funds are driven by individuals, [share prices] are not particularly rational," adds Andrew Linton, a specialist in small Asian markets at broker W.I. Carr. Mr. Linton says that stock holders lack access to news on these markets and thus tend to trade on factors other than the fundamental outlook for the underlying assets.

"The Korea Fund often tracks the performance of the New York Stock Exchange better than it's own underlying market," says Mr. Linton.

"There is no necessary catalyst for demand other than positive or negative news stories," observes one analyst. For example, from late May to early June shares in the Helvetia fund rose 10.7 percent, reacting to a couple of articles in Forbes magazine touting the wizardry of Swiss money managers and the prospects for Swiss stocks and currency. At the same time the net asset value of the fund declined by 10 percent.

Negative news stories on the Brazilian economy coupled with the widely reported possibility of leftist political victories in the recent municipal elections caused a 6-percent slide in Brazil Fund share prices even though the net asset value rose 16 percent from April to November. After missing out on the rise, the shares are now dropping roughly in line with the net asset value, no doubt infuriating many investors.

THE clout of brokerage house recommendations can be seen in the differing fortunes of the two closed-end funds that invest in Spanish securities. Soon after Drexel Burnham Lambert began recommending the Spain Fund in late September, the share price began advancing. In the same period shares in the First Iberian Fund lost value.

The two funds hold nearly the same stocks and rose an identical 8 percent in net asset value between Sept. 30 and Dec. 2. The discount on First Iberian, which had been narrower than the one on Spain Fund following a favorable brokerage report last summer, is now wider. "That's the result of a lack of news on the First Iberian Fund and an abundance of it on the Spain Fund," says one specialist.

One reason that the institutional following of country funds remains so meager is the large number of alternatives for sophisticated investors who do not care to play the game of shifting discounts and premiums. Scores of blue-chip companies in Japan, Britain, Germany and other countries have listed their shares on New York Exchanges in the form American Depositary Receipts. These receipts represent ownership of stock in companies listed on overseas exchanges.

In some cases, some of the ADRs of these companies could be regarded as investment funds themselves. Investors interested in the West German market could purchase, Deutsche Bank, which has holdings in virtually every other German blue-chip corporation.

The country fund concept would seem to make the most sense in such situations as Taiwan and Korea, where the governments only allow foreigners to invest through designated funds. For U.S. retail investors, the Taiwan Fund and the Korea Fund offer the only access to these two fast-growing Asian economies.

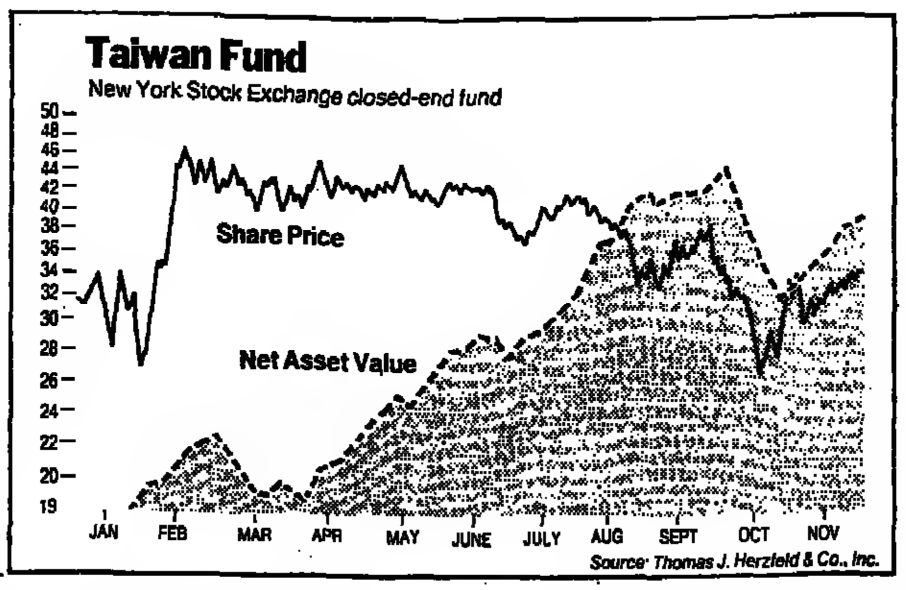
But even there, institutional investors have alternatives. For the Seoul market, institutions may purchase stakes in five offshore closed-end funds — called unit trusts — managed by Korean investment firms. Similar alternatives exist for the Taiwan market in the form of three offshore funds.

The premiums on these funds tends to be smaller and far more stable than those on the New York-traded Korea Fund. But the high cost of these funds and their offshore status rules them out for most individuals. "The minimum purchase is usually for a thousand units which will cost around $80,000," says Mr. Linton.

A nagging question for investors in the Korea Fund and Taiwan Fund concerns what will happen to the steep premiums on these issues when the government follows through on promises to open the local market foreigners.

Seoul has already made it known that it will allow both the Korea Fund in the United States and the London-listed Korea Europe Fund to issue more shares next year. There will also be three new offshore trusts for Korean shares. Eventually, the government plans to open the market to direct foreign investment in 1992.

How this process will affect the price on the Korea Fund depends on many factors, including how far the government goes in opening the market and whether Korean shares remain in favor. But already the premium on the Korea Fund has begun to decline, mostly because the price has remained stable while the asset value has risen. "Presumably, demand for the Korea Fund has shrunk in part because of investor anticipation of this," says Mr. Porter. □



STRATEGY

Investors Go With the Cash Flow

By Bruce Hager

New York

COMPANY financial statements can be used to derive a wealth of information about corporate health. But when Kenneth Hackel, president of a Fort Lee, New Jersey, money management and consulting firm, starts crunching the numbers, he zeros in on cash flow. For Mr. Hackel, a company's ability to spin out cash is his most important investment criteria.

All companies have cash flow, either positive or negative. The "gross" measure of cash flow is simply the company's final profit plus depreciation — the amount it is allowed to reduce its taxable income because of wear and tear on plant and equipment.

But gross cash flow does not take into account what a company might owe in dividends and debt payments. Mr. Hackel's analysis goes further, taking a look at the "free" cash left after a company pays its debt obligations, capital expenditures and dividends.

"Free cash flow implies the company has financial flexibility," asserts Mr. Hackel, president of Systematic Financial Investment. A company has the ability to use the excess cash to enhance shareholder value by buying back shares or raising the dividend. If the economy falters, a company with excess cash can still add new property and equipment as well as pay off its debts even if its earnings suffer.

THIS IS especially important should the U.S. economy slip into a recession, as some economists predict might happen next year. In that case, companies with strong cash flow will be better able to weather the difficulties. Businesses that have "leveraged" their balance sheets with high levels of debt that consume cash flow will face problems.

"If there is a recession, leveraged stocks are not the ones to be in," says Michael Price, president and portfolio manager of the $2.5 billion Mutnal Shares Fnnd. "Most of the portfolio should be in low-leveraged companies."

Mr. Price looks for companies that sell at three or four times cash flow with little or no debt. A few that fit that category include the brewer Coors, tire maker Goodrich and the chemical company Monsanto.

J.P. Stevens, the sheet and towel producer, offers an example of how Mr. Hackel uses cash flow analysis to spot promising stocks. Before last year's market crash, the stock was selling at about 17 times its per-share earnings, slightly above the price-earnings multiple of the market as a whole. But Mr. Hackel noticed that the ratio of the stock price to the per-share free cash flow was below the level of the market.

He bought the stock. And so did J.P. Stevens, using its extra cash to finance the repurchase of its own shares and driving up the price. When Mr. Hackel sold his shares last March, they were worth $70, more than twice what he paid for them.

Mr. Hackel and others using his approach like to say that cash flow does not lie. A company can distort earnings by using different depreciation techniques or timing the allocation of certain costs. "Every item on the balance sheet can work down to earnings in a different way," notes Gerry Angulo, president of Angulo Capital in New York.

The number of stocks with good cash flow is not large. The average company does not generate excess cash, however, because it usually borrows money to expand. Payments on this debt typically use up most of a company's cash flow.

Industrial companies whose spending on plants, stores or equipment tends to move in cycles with the economy sometimes show strong cash flow.

"There are industrial companies that have a lot of free cash flow that can buy back shares, and this could be a basis for these companies to outperform in the near future," says Timothy Shea, a portfolio strategist at Cyrus J. Lawrence, Morgan Grenfell Inc. in New York. He cites Alcoa, Dow Chemical, Inland Steel and USX as examples.

The cash flow figure by itself is not very useful unless put in the context of the company's financial record and compared with other firms, say money managers. Mr. Hackel, who tracks about 7,000 companies, applies several tests to determine whether to buy.

First, the stock price divided by the free cash flow per share must be less than that of the Standard & Poor's Industrials, which was recently 26. Second, the company must have been generating free cash flow for two business cycles, or eight years. And third, the company must be able to pay off its debts within five years.

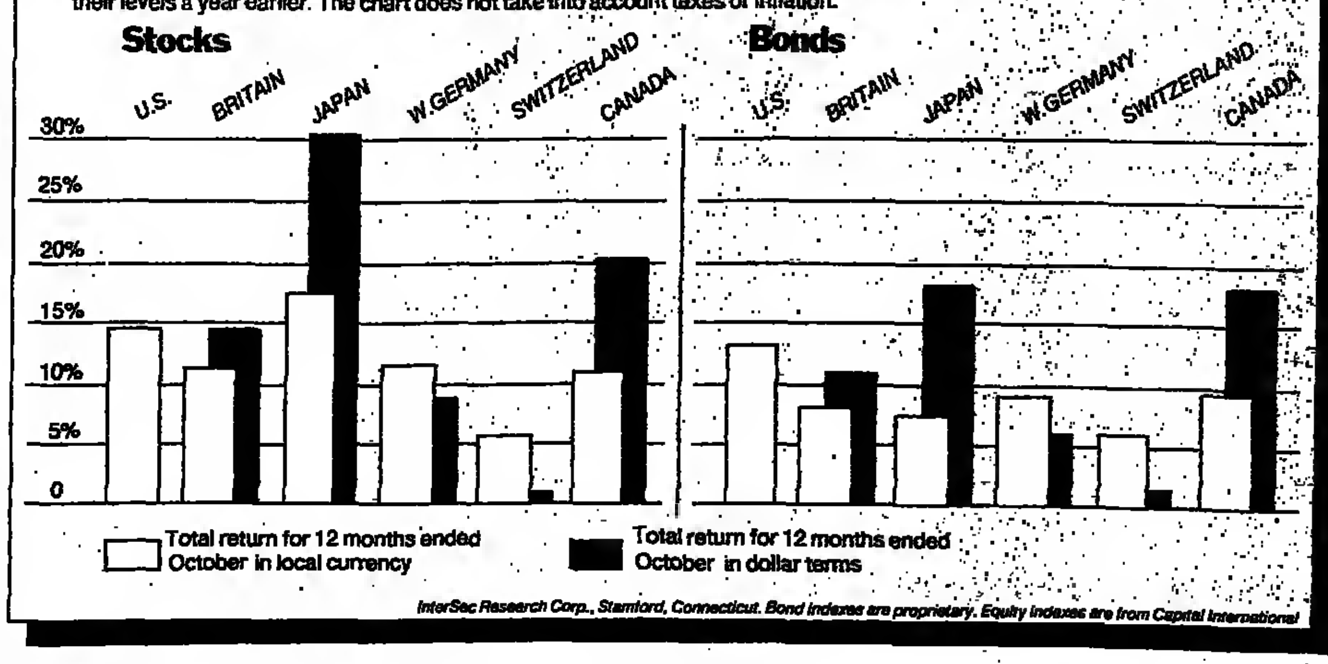
Three companies that fit these screens include American Home Products, Clorox and Ogilvy. American Home, one of the largest drug companies in the world, sells at 13.6 times free cash flow. □

November Market Scoreboard

	Percent Change	Price Nov. 30		Percent Change	Price Nov. 30
New York Stock Exchange:					
Compiled by Media General Financial Services. Prices in dollars					
Interpublic Group	+244	34.88	Interco	–56	29.63
Rockaway Corp.	+41	14.63	Eagle-Picher Inds.	–54	13.63
Prime Computer Inc.	+32	17.75	United Brands Co.	–30	13.75
Veeco Instruments Inc.	+30	26.00	Wheeling-Pittsburgh	–22	14.38
Plessey PLC	+28	38.50	Petrie Stores Corp.	–21	16.00
National Intergroup	+27	17.75	La Quinta Motor L.P.	–20	10.50
MGM/UA Communications	+25	13.75	CML Group	–20	19.00
TGI Friday's	+21	12.75	Pansophic Systems	–20	11.63
First City Industries	+20	12.88	Belding Heminway Co.	–19	31.25
Ohio Mattress Co.	+20	16.00	Gitano Group Inc.	–18	15.50
American Stock Exchange:					
Winston Furniture Co.	+27	16.50	Oranogenesis Inc.	–34	14.13
Pauley Petroleum Inc.	+26	15.75	Moore Medical Corp.	–26	10.88
California Energy Co.	+28	16.00	Riedel Environmental	–21	10.75
Champion Products	+17	48.25	Vulcan Corp.	–20	19.00
Forstmann & Co. Inc.	+18	11.50	Continental Materials	–24	11.75
Over the Counter:					
Triangle Industries (A)	+556	52.50	Howard Bank Corp.	–38	17.75
General Magnaplate	+62	19.00	Centocor Inc.	–30	14.25
Centel Cable T.V.	+60	37.63	Washington Bancorp NJ	–27	12.25
Compuchem Corp.	+53	10.13	Motor Club of America	–24	10.25
Local Federal S & L Okla	+43	10.75	Advanced Telecom.	–24	13.38
London Stock Exchange:					
Compiled by Morgan Stanley Capital International. Prices in pence					
Hammerson Property A	+36	898	Amstrad	–25	154
Plessey	+20	209	Hambros PLC	–16	217
Great Portland Estates	+14	394	Oxford Instruments	–16	224
Storehouse	+13	212	Enterprise Oil	–15	493
Charter Consolidated	+8	474	Marley	–15	148
Bowthorpe Holdings	+7	178	Courtaulds	–14	257
Johnson Matthay	+5	372	Next	–13	156
British Land	+5	364	Burton Group	–13	181
Hanson	+5	156	Lex Services	–13	335
Ultramar	+5	253	Kleinwort Benson	–12	311
Tokyo Stock Exchange:					
Compiled by Morgan Stanley Capital International. Prices in yen					
Tokai Carbon	+51	961	Bank Kyoto	–28	1,730
Tokyo Sogo Bank	+26	1,890	Nippon Piston Ring	–9	900
NHK Spring	+26	855	Nagoyo Railroad	–9	1,040
Yamashita-Shinnihon	+26	516	Penta Ocean Construct.	–8	1,000
Godo Shusei	+24	1,490	Showa Electric Wire	–8	965
Japan Securities	+24	1,170	Nippon Yakin Kogyo	–7	1,390
Fuji Spinning	+23	639	Osaka Gas	–7	810
Japan Line	+22	539	Nippon Hodo	–7	3,000
Mizuno	+22	1,340	Fujikura	–6	1,290
Hohnen Oil	+22	790	Noritake	–6	1,160

Total Return for 12 Months

Total return measures both the changes in the prices of securities and the income they provide, either in dividends or interest. Gains or losses were measured by comparing market indexes with their levels a year earlier. The chart does not take into account taxes or inflation.



Total return for 12 months ended October in local currency
Total return for 12 months ended October in dollar terms

InterSec Research Corp., Stamford, Connecticut. Bond indexes are proprietary. Equity indexes are from Capital International

BONDS

The Odds Favor Nondollar Currencies

Continued From Page 7

some economists believe there may be room for the U.S. bond market to rally as the higher interest rates of the last several months begin to slow the economy and inflation fears recede.

Mr. Bordman of T. Rowe Price is among those who believe that U.S. interest rates may stabilize or even decline during 1989. But, he says, the case for selected markets outside the United States is even more favorable.

"The balance in the economics outside the U.S. is really far more attractive than the currently imbalanced U.S. economy," says Mr. Bordman.

The most promising fundamentals appear to be in the West German bond market and, to some extent, in the French market, say several fixed-income specialists. Economic growth is reasonably solid, and inflation remains at relatively low levels in both cases, note analysts. Total returns in dollar terms of 13 to 14 percent may be possible in German and French bonds next year, according to estimates by several firms, including Phillips & Drew and Salomon Brothers.

"I think economic conditions in the German market really still look quite attractive," says Mr. Thomas of Midland Montagu. "You've got bond yields there on the order of 6 1/4 percent in the 10-year maturity range, which, considering the economic conditions in Germany, are still by far one of the more attractive situations."

Mr. Bordman notes that central banks in Germany, the Netherlands and France tightened monetary policy in the summer to defend their currencies with higher interest rates. "So it seems logical to us that if the currency pressure which was against their currencies in the summer of this year is removed, as we think it will be, then there is scope for interest rates to decline," he says.

Adding to the allure of German bonds is the prospect that the Deutsche mark will be the prime beneficiary of the dollar's decline.

France also exhibits the combination of inviting inflation-adjusted bond yields and the promise of a strengthening currency, in dollar terms.

"So you really do have a fantastic real yield available there," says Mr. Flight, "and a currency which we think will appreciate against the dollar." Nearly a third of the nondollar portion of his bond portfolio is in French franc securities.

The yen bond market is also expected to do well, but performance has already been strong over the last year or so.

In Britain, the surge in interest rates has hammered the market in government bonds. But Mr. Thomas says prospects from now on look good, in part because the government does not need to sell any more debt.

Taking a longer view, Mr. Flight believes that in 1989 or possibly 1990, bond investors may be enter a prolonged period in which economic trends will favor fixed-income securities.

"What we have got coming is a worldwide slowdown, inflation rates falling back with it, and real bond yields ever more attractive," he says. "I think at some stage, there will be a quite a sharp bull market in bonds." □

GOLD

Continued From Page 7

strongly, this demand would drop off dramatically and gold could tumble.

"Because gold is seen as a hedge against U.S. currency, it shows an almost mirror reflection of the dollar's course," notes Lucille Palermo, a gold analyst at Drexel Burnham Lambert.

Obviously, gold prices are also affected by supply and demand, but even here analysts believe the market can absorb the existing output. Mine production has increased by roughly 3.3 million ounces in 1988 and is expected to rise just as much in 1989. According to Ms. Palermo, these increases have been more than neutralized, however, by Far Eastern demand.

Other key factors in the supply and demand equation are sales of recycled stock and western sales of Soviet gold. But traders say that it appears that the recycled metal is being held off the market until prices improve. Soviet sales, which helped cause the market's only sustained dip below $400 last September, are also being held back in anticipation of rising gold prices, analysts say.

In the short term, investors should keep an eye on platinum prices which have risen more than 20 percent since September, analysts say. The increase partly reflects the growing demand on behalf of individual investors who are buying Australia's and Canada's new platinum coins.

Whether this rally will be sufficient enough to stir other precious metals, however, is uncertain. "If platinum gets its knickers in a twist and starts to tumble that will be a bearish sign for gold," says Ms. O'Connell of Shearson Lehman Hutton.

EUROBONDS

Japanese Planning Flood Of Equity-Linked Issues

By CARL GEWIRTZ
International Herald Tribune

PARIS — Bankers in Tokyo expect a flood of equity-linked issues to hit the Eurobond market next month. The current estimate is for new-issue volume to hit $6 billion in January as Japanese companies rush to tap the strong international demand for shares to significantly lower their borrowing costs.

Currently, Japanese issuers of Eurodollar bonds bearing warrants to purchase shares are able to swap the dollar proceeds into fixed-rate yen obligations at a low annual interest cost of ½ percentage point. The only cloud on the horizon is whether the performance of the Tokyo stock market will continue to whet investor demand for stock warrants because that is the basis on which Japanese companies can issue the low-cost debt used to create the low-cost swap into yen.

Japanese issuers seek to tap the strong foreign demand for their shares.

Last week, the Nikkei stock index broke past the 30,000 level to hit 30,050.82 and then pulled back modestly on profit-taking.

"If the equity market remains strong, a lot of industrial companies will be shifting from yen-based financing to dollars," said one banker. He noted that it generally takes a month between the decision to tap the market and the actual launching of an issue, which explains why the expected flood will not materialize until January.

Such high monthly volumes are not uncommon. As recently as last summer, the Japanese were flooding the Eurobond market with paper. But the subsequent glut in the wake of falling stock prices reduced new-issue volume to a trickle.

Continued strong economic growth and renewed vigor in exports — now directed to Asia and Western Europe — are prompting analysts to revise upward the outlook for profits and the performance on the stock market.

Among the new issues launched last week, the $120 million offering from Tokyo Steel Co. was trading on a when-issued basis at a premium of 8½ percent, while the $100 million offering from Nippon Stainless Steel Co. was quoted at a premium of 4¾ percent.

ISSUERS ARE now using the heavy demand — reflected in the trading premium — to reduce the coupons paid on the bonds. Sumitomo Rubber Industries, whose $100 million issue was marketed with an indicated coupon of 4¾ percent, fixed the annual interest payment at 4½ percent. Coupon levels earlier this year hit a low of 3¼ percent.

Three British issuers also tapped the equity-linked market last week. Two of them, Smith & Nephew Associated Cos., a health-care products concern, and Dawson International PLC, a knitwear firm, issued convertible preference shares to finance acquisitions of U.S. companies. The structure is attractive to investors as well as issuers.

For investors, the annual coupon on the Smith & Nephew paper is 8¾ percent — about double the current dividend on the stock of 4.4 percent. Dawson's coupon is 9¾ percent, compared with a current yield on the stock of 5.4 percent. In exchange for the higher current yield earned holding the convertible, the exercise price to buy the actual shares is set at a premium of 10½ percent.

The advantage to the issuers is that they get to deduct the annual coupon payment as an interest expense whereas dividend payments are not deductible.

Associated Newspapers Holdings, as it and other U.K. publishers have done before, turned to the market last week to finance part of its investment in Reuters. Associated Newspapers tapped the market for £60 million with a coupon of 8¼ percent. The paper is convertible in Reuters B shares at 538 pence, a premium of 15.1 percent over the current price.

But the issuer is not obliged to give up its shares in Reuters since it reserves the right to pay cash to investors seeking conversion rather than stock. In effect, rather than pay 13 percent or more for short-term bank credit to finance the investment, the issuer will finance the holding at 8¼ percent plus give up any potential capital gain on the shares exceeding 15.1 percent.

However, for investors who like the stock it is still a good deal since the shares yield 2.1 percent — a quarter of the annual payment the Associated Newspapers issue is offering.

In the straight-bond market, activity last week was concentrated in those sectors which provided issuers the lowest-cost swaps into floating-rate dollars — Australian, New Zealand and Canadian dollars.

The New Zealand-dollar issuers were high-quality names certain to attract retail investors — Unilever and the World Bank, both offering coupons of 14 percent. The yields were actually lower since both were offered at premiums of about 2 percent.

The bigger Australian-dollar sector saw not only equally es-

See EUROBONDS, Page 13

Currency Rates

Cross Rates Dec. 9

	$	£	D.M.	F.F.	I.L.	Gldr.	B.F.	S.F.	Yen
Amsterdam	1.9615	3.6715	1.1298	0.3302	0.153 *	—	5.386 *	1.3417	1.6022 *
Brussels (a)	36.4325	67.2525	20.956	6.1225	2.8281	18.565	—	24.987	0.2976
Frankfurt	1.7383	3.207	—	0.2927	0.1354 *	0.886	4.772 *	1.1866	1.4195 *
London (b)	1.8490	—	3.2003	10.946	2,263.50	3.612	66.915	2.6985	226.15
Milan	1,284.00	2,369.30	738.30	216.02	—	656.14	35.227	877.20	10.483
New York (c)	—	1.8490	1.7275	5.937	1,283.50	1.9715	36.40	1.4465	122.45
Paris	5.9795	10.97	3.4174	—	0.463 *	3.0286	16.423	4.0606	4.8516 *
Tokyo	122.45	226.25	70.30	20.62	9.55	62.08	3.37	83.38	—
Zurich	1.4895	2.6967	0.8437	0.2467	0.1142 *	0.7464	4.0198 *	—	1.1928 *
1 ECU	1.1956	0.6405	2.0785	7.1003	1,534.21	2.3497	43.5064	1.7494	146.433
1 SDR	1.3647	0.7395	2.3723	8.1007	1,750.34	2.6769	49.7657	1.9959	166.976

Closings in London, Tokyo and Zurich, fixings in other centers. New York closing rates.
a: Commercial franc; b: To buy one pound; c: To buy one dollar; *: Units of 100; N.Q.: not quoted; N.A.: not available.

Other Dollar Values

Currency	Per $	Currency	Per $	Currency	Per $	Currency	Per $
Argen. austral	12.95	Fin. markka	4.09	Mex. peso	2280.00	S. Afr. rand	2.3635
Austral. $	1.1514	Greek drac.	144.85	N. Zealand $	1.5954	Soviet ruble *	0.5959
Austr. schill.	12.22	Hong Kong $	7.806	Norw. krone	6.48	Span. peseta	113.20
Belg. fin. fr.	38.38	Indian rupee	15.08	Phil. peso	20.70	Swed. krona	6.017
Brazil cruz.	532.50	Indo. rupiah	1718.00	Port. escudo	144.50	Taiwan $	28.15
Canadian $	1.1953	Irish £	0.643	Saudi riyal	3.751	Thai baht	25.285
Chinese yuan	3.7221	Israeli shek.	1.686	Singapore $	1.9392	Turkish lira	1789.00
Danish krone	6.725	Kuwaiti dinar	0.282	S. Kor. won	687.80	UAE dirham	3.673
Egypt. pound	2.2229	Malay. ring.	2.684			Venez. boliv.	37.00

New York rates unless marked * (local rate)

Forward Rates

Currency	30-day	60-day	90-day	Currency	30-day	60-day	90-day
Pound Sterling	1.8432	1.8348	1.8315	Canadian dollar	1.1965	1.1982	1.2001
Japanese yen	122.02	121.39	120.76	Swiss franc	1.4564	1.4513	1.4464
Deutsche mark	1.7283	1.7227	1.7178				

Sources: Indosuez Bank (Brussels); Banca Commerciale Italiana (Milan); Banque Nationale de Paris (Paris); Bank of Tokyo (Tokyo); IMF (SDR); BAII (dinar, riyal, dirham); Goskank (ruble). Other data from Reuters and AP.

Last Week's Markets

All figures are as of close of trading Friday

Stock Indexes

	Dec.9	Dec.2	Ch'ge
United States			
DJ Indus.	2,143.49	2,092.28	+ 2.45 %
DJ Util.	185.04	183.24	+ 0.97 %
DJ Trans.	951.20	934.86	+ 1.75 %
S & P 100	263.64	257.87	+ 2.24 %
S & P 500	277.03	271.81	+ 2.01 %
S & P Ind	319.06	312.16	+ 2.21 %
NYSE Co	155.59	153.02	+ 1.68 %
Britain			
FTSE 100	1,780.70	1,795.00	— 0.81 %
FT 30	1,429.40	1,439.70	— 0.72 %
Japan			
Nikkei 225	29,793.42	29,532.25	+ 0.88 %
West Germany			
Commerzbank	1,616.40	1,579.30	+ 2.35 %
Hong Kong			
Hang Seng	2,671.26	[illegible]	+ 8.15 %
World			
MSCIP	491.20	490.80	+ 0.08 %

World Index From Morgan Stanley Capital Intl.

Money Rates

	Dec.9	Dec.2
United States		
Discount rate	6½	6½
Federal funds rate	8½	8⅝
Prime rate	10½	10½
Japan		
Discount	2½	2½
Call money	4 3/16	3 13/16
3-month interbank	4 3/16	4 3/16
West Germany		
Lombard	5.50	5.50
Call money	4.95	4.85
3-month interbank	5.25	5.10
Britain		
Bank base rate	13.00	13.00
Call money	13¼	13⅛
3-month interbank	13 5/16	13 3/16

Gold	Dec.9	Dec.2	Ch'ge
London p.m. fix $	419.75	424.25	— 1.06 %

Volcker Skeptical On Deficit

Former Fed Chief Warns on Growth

Reuters

TOKYO — Paul A. Volcker, former head of the U.S. Federal Reserve Board, voiced doubts Sunday about the ability of the United States to take the tough steps needed to cut its huge budget deficit and keep world economic expansion on track.

"There is reason to doubt whether the change in policy will be made in a timely and effective way," he told a forum sponsored by the Tokyo Club Foundation for Global Studies.

If the United States fails to act, the dollar will be sold, U.S. interest rates will rise and worldwide economic expansion will come to an end, Mr. Volcker said.

He disparaged the plan of U.S. President-elect George Bush to cut the deficit through a so-called flexible freeze on spending and said that a tax increase looked unavoidable.

"I do not know what a flexible freeze is," the former Fed chairman said. "It depends on whether you emphasize the freeze or the flexibility."

Mr. Volcker repeated his call for an increase in the U.S. gasoline tax. A 50-cent-per-gallon increase over a period of time, combined with spending cuts, could balance the U.S. budget in four or five years, he said.

But he acknowledged that such a move would be politically difficult. Mr. Volcker emphasized the importance of stable currency rates, saying a weaker dollar would serve only to push up inflation in the United States. "We ought to defend the dollar," he said.

He also voiced concern about the plight of heavily indebted developing countries.

Third World nations must be able to count on receiving more loans in the future in return for putting their economies in better shape, said Mr. Volcker.

■ Democrat Backs Tax Rises

The Democratic co-chairman of the National Economic Commission said Sunday that new taxes would be needed to solve the U.S. budget deficit problem — a possibility not ruled out by his Republican counterpart, the Associated Press reported from Washington.

"I must tell you that in my judgment I have not found sufficient spending cuts to make up the shortfall," said Robert Strauss, one of two leaders of the advisory panel seeking deficit solutions.

Appearing with Mr. Strauss, the Republican co-chairman, Drew Lewis, sought to emphasize the panel's search for savings. But he mentioned, as "a last resort," a consumption tax adjusted according to individual ability to pay.

World Carmakers Drive Into Japan

Trailing Only the U.S., Market Is Too Large to Ignore

By Patrick L. Smith
International Herald Tribune

TOKYO — The task seems roughly akin to selling sand in the Sahara, ice in Alaska or coal in Newcastle, as the British saying has it: On the face of it, at least, the Japanese auto market might appear to be the last place foreign car makers would want to make a costly commitment to pushing their products.

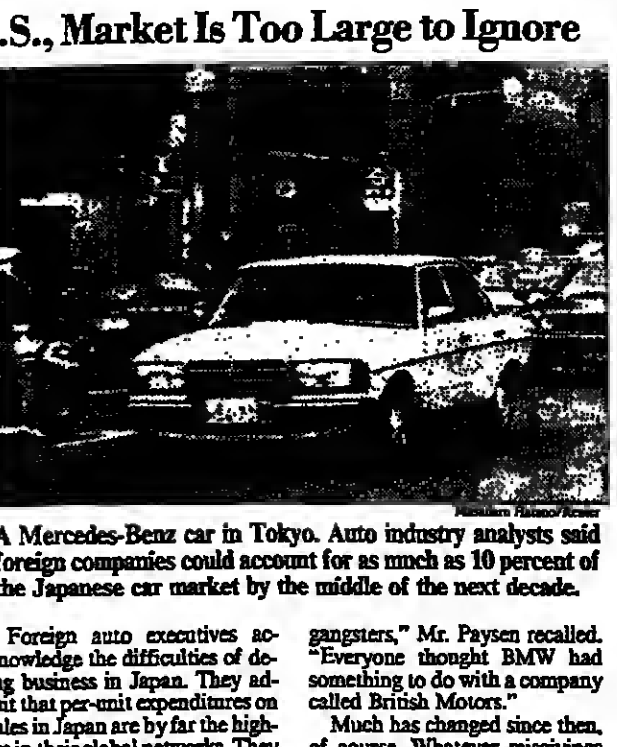
For one thing, this is home turf for the world's most aggressive and competitive auto industry. For another, the slice of the pie claimed by foreign car companies is piddling — 3 percent of a market worth 3 million cars — making it tough to match high sales costs with meager returns and unpromising growth.

Nonetheless, U.S. and European automakers are almost uniformly gearing up for a major push into the middle and higher end of the Japanese market. And at the lower end of the scale, Korean auto makers, most of which already have technology and capital tie-ups with Japanese firms, are starting to feel their way along the wall.

In the past few weeks alone, Mercedes-Benz Japan Co. launched a joint-venture sales company with Mitsubishi Motors Corp., Automobiles Citroën unveiled plans to market subcompacts in Japan through Mazda Motor Corp., and Chrysler Corp., the third-ranked U.S. carmaker, set up a Japanese sales subsidiary in partnership with a local trading concern.

But nothing signifies the new commitment among foreign makers as dramatically as the listing last week of shares in Volkswagen AG on the Tokyo Stock Exchange. Was it strictly a matter of capital-sourcing? Not just: The VW listing was quickly followed by disclosure of plans to establish a wholly owned distribution and servicing network in Japan by next spring for Volkswagen and Audi models.

"Japan is more than just a financial market — it's everything," said Carl H. Hahn, Volkswagen's chairman, in an interview. "As people grow in sophistication and affluence, they'll be more inclined to buy European products. We're optimistic — very."



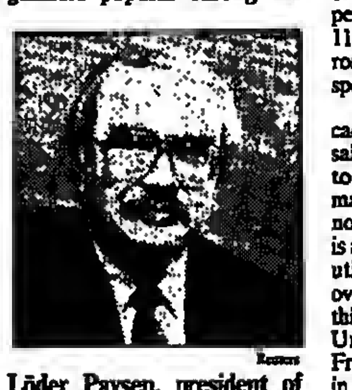
Masaharu Hatano/Reuter

A Mercedes-Benz car in Tokyo. Auto industry analysts said foreign companies could account for as much as 10 percent of the Japanese car market by the middle of the next decade.

Foreign auto executives acknowledge the difficulties of doing business in Japan. They admit that per-unit expenditures on sales in Japan are by far the highest in their global networks. They also recognize that whatever technical innovation their companies bring to the market is likely to be available in standard Japanese makes within a year or so.

But if the game is tough these days, it has been tougher. Lüder Paysen, president of BMW Japan Corp., recalled arriving in 1981 to discover that all foreign manufacturers in this market were together unable to top annual sales of 40,000 units.

"The imagery was all wrong — foreign cars were overpriced gas-guzzlers popular among the



Reuters

Lüder Paysen, president of BMW Japan, the leading foreign automaker in Japan.

gangsters," Mr. Paysen recalled. "Everyone thought BMW had something to do with a company called British Motors."

Much has changed since then, of course. Whatever misgivings economists had about the sustainability of domestic growth at its current pace, car makers are convinced that consumer habits in Japan are evolving permanently away from the save-all, spend-nothing ethic of the post-war era.

As a whole, the passenger-car market in Japan expanded by 12 percent in the first 11 months of this year, to 3.1 million units. The luxury end of the market, although slowing lately, is up 56 percent from last year. Foreign car sales, which surpassed their 1987 total by October, rose 35 percent in the first 11 months, to 116,500 units. In November they rose 62 percent from the corresponding month a year earlier.

By the middle of the next decade, many executives in Tokyo said, foreign autos could take up to 10 percent of the Japanese market — 350,000 units if almost no growth is assumed. Even that is a modest proportion, car executives noted, compared with overall import penetration of a third in West Germany and the United States, a quarter in France and Italy and 50 percent in Britain.

Such projections, together

See CARS, Page 15

Daewoo Offers 5 Units in Bid To Aid Shipyard

Reuters

SEOUL — South Korea's giant Daewoo Corp. has offered to provide 200 billion won ($291 million) toward a government-aided bailout of its ailing shipyard unit by selling five subsidiary companies.

Kim Woo Choong, chairman of Daewoo, said in a report to Parliament on Saturday that the group would use 200 billion won from the disposal of five subsidiaries for bailing out the shipyard, the second-largest in South Korea.

The government has said that it would provide a financial aid package for Daewoo Shipbuilding & Heavy Machinery Ltd., but not without substantial help from the parent.

Government officials said the shipyard, more than 1 trillion won in debt, should be saved to avoid layoffs and other disruptions.

The five subsidiaries concerned are Daewoo Investment & Finance, Korea Steel Chemical Co., Sorak Development Co., Shina Shipbuilding & Engineering Co. and Pungkuk Oil Co.

The profitability of the five was not immediately known.

The decision by Daewoo to sell the companies appears to mark a softening on its earlier position that such a move would be an unrealistic price to pay for government assistance.

The Daewoo group has 28 member companies and is one of South Korea's four largest conglomerates. The group reported a combined profit of 35.2 billion won in 1987. But the shipbuilding subsidiary reported a loss of 69 billion won on sales of 514 billion won.

Daewoo has asked the government to order Korea Development Bank, a government-owned institution, to increase its 33 percent stockholding in Daewoo Shipbuilding.

The Daewoo Shipbuilding yard at Okpo on Koje island employs 14,000 people and has annual production capacity of 1.68 million gross metric tons of ships and structures.

All those jobs would be put at risk if the subsidiary were allowed to become bankrupt. Its collapse could also hurt lenders, in addition to the parent concern.

The subsidiary was hurt by the worldwide shipping and shipbuilding recession, the appreciation of the won against the dollar and a series of strikes early this year that resulted in wage increases of almost 40 percent.

The Daewoo group as a whole accounts for about 10 percent of South Korea's exports.

Key Producers Voice Support For OPEC Pact

Compiled by Our Staff From Dispatches

KUWAIT — President-elect Carlos Andres Perez of Venezuela and Kuwait's emir, Sheikh Jabbar al Ahmad al Sabah, expressed support Sunday for OPEC's new output pact, the Venezuelan ambassador said.

Rafael Osuna said Mr. Perez, who is visiting Middle East oil producers, proposed the cartel hold a summit to discuss ways to strengthen the organization. The last Organization of Petroleum Exporting Countries summit was held in 1975 in Algiers.

The output agreement, reached in November, calls for OPEC to cut oil output by about four million barrels a day, to 18.5 million in the first half of next year, with the aim of raising the price of oil to $18 a barrel from around $14.

Meanwhile, Abu Dhabi, the largest oil producer of the seven United Arab Emirates, said it would abide by OPEC's production rules. But its statement did not say if the Emirates would return to their quota of 998,000 barrels a day.

Separately, Iran said it would reopen its giant Abadan oil refinery in less than four months, part of a drive to repair facilities shattered during the Gulf War. *(Reuters, UPI)*

Latin Officials Seek Debt Strategies

By Richard House
Washington Post Service

RIO DE JANEIRO — Finance ministers of Latin America's seven key borrower nations are meeting here Sunday and Monday to seek ways of reducing the continent's $410 billion debt burden without resorting to the formation of a debtors' cartel.

Their meeting comes at a time of deepening popular discontent with economic stagnation that has been caused, in part, by debt payments and will surely be the key issue in several election campaigns during 1989.

"If governments do not solve the debt problem there are serious risks that those who defend radical solutions will start winning elections," said Brazil's finance minister, Mailson Ferreira da Nobrega.

Unlike the much-publicized 1984 inaugural meeting of 11 debtors in Cartagena, Colombia, which generated widespread concern but few results, the so-called Group of Eight's meeting promises to be more technical and discreet.

The group comprises Argentina, Brazil, Mexico, Colombia, Uruguay, Peru, Equador and Panama, whose membership is suspended.

"Don't expect any new initiatives from Rio," said a Brazilian finance ministry official. "If any proposal is adopted, it will be sent upward to the presidents to be announced by them later."

Foreign bankers in Rio said they had been told by the government that the group's purpose is not to form a cartel, but to debate proposals for unorthodox ways of reducing the overall Latin debt, which would be discussed with creditor governments and banks.

After the humiliating failure of Brazil's 1987 moratorium on interest payments to secure negotiating advantages, the proposals before the ministers in Rio are of a nonconfrontational nature, centering on the concept of debt forgiveness floated earlier this year by bankers.

With the banks retreating from the continent, each country approaches this week's talk with a slightly different agenda.

President Raúl Alfonsín of Argentina is demanding a nonconventional approach to the debt.

Brazil in September abandoned 18 months of confrontation by returning to an orthodox debt strategy with a $62.5 billion rescheduling plan that included $5.2 billion in new loans.

Its ideas include consolidating debts into new U.S. Treasury-backed bonds, and the creation of debt facilities that would have the World Bank or the International Monetary Fund buy and resell existing debt.

Holmes à Court Is Back With a Bang

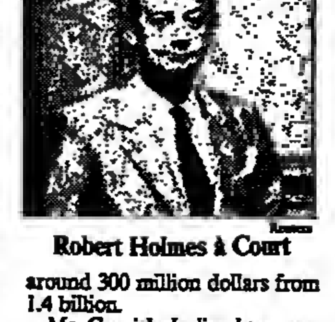
Reuters

MELBOURNE — Robert Holmes à Court, the Australian financier, has made an aggressive return to the stock market, saying he had taken a 6.9 percent stake in one of his former companies, currently the target of a bid from Bond Corp. Holdings.

Trebor Holdings Pty. said Friday it was the mystery buyer that has been pushing the price of J.N. Taylor Holdings Ltd. beyond Bond's offer price of 2.20 Australian dollars ($1.91) a share.

Geoff Cornish, an aide of Mr. Holmes à Court and Trebor company secretary, said that Trebor was controlled by the former billionaire.

Mr. Holmes à Court, once Australia's most feared corporate raider, did not recover from last October's stock market collapse and sold control of his flagship Bell group of companies earlier this year to Bond Corp. and others. The collapse trimmed his estimated fortune to



Reuters

Robert Holmes à Court

around 300 million dollars from 1.4 billion.

Mr. Cornish declined to comment on Mr. Holmes à Court's intention toward Taylor, but the shareholding, 2.53 million of Taylor's roughly 36.5 million shares, is close to an effective blocking stake, which would prevent Bond, controlled by the financier Alan Bond from claiming 100 percent of Taylor.

Trebor has the same address and offices as Mr. Holmes à Court's personal investment vehicle, Heytesbury Holdings Ltd.

Heytesbury and associated companies were the means through which Mr. Holmes à Court held his former investments in the Bell chain of companies — Bell Group Ltd., Bell Resources Ltd. and Taylor — before the collapse.

Analysts who have keenly watched the recent spurt of trade in Taylor and Bell Resources had no doubts that Mr. Holmes à Court was returning to his old style of corporate greenmail in which he forced bidders to buy his holdings of a target company.

Bond on Tuesday raised the Taylor bid to 2.20 dollars but still a mystery buyer pushed the price up. Taylor closed Friday at 2.25 dollars.

After a campaign of asset sales including Bell Resources' remaining stake in Broken Hill Pty., the largest Austrialian company, Mr. Bond is working to blend the cash and tax losses of Bell companies into Bond Corp.

Analysts said they expected Mr. Bond to use Bell Resources as the vehicle for a possible takeover bid for Lonrho PLC.

Dollar Faces Fireworks On Welter of U.S. Data

By Carl Gewirtz
International Herald Tribune

PARIS — Last week's fireworks in the foreign-exchange market could be repeated this week, when a number of important U.S. economic statistics are due to be released, according to traders.

The most important will be Wednesday's report on the October trade deficit. Estimates of most analysts place the deficit between $9.5 billion and $10.5 billion, compared with a September shortfall of $10.46 billion.

As there is considerable concern that the boost given to U.S. exports by the dollar's long decline from its 1985 highs may be running out of steam, a stable deficit could fuel speculation that a further drop in the dollar is needed. By contrast, a reduction in the deficit could help calm such fears.

In addition, Washington will re-

See DOLLAR, Page 13

Weekly International Bond Prices

Provided by Credit Suisse First Boston Securities, London, Tel.: 01 323 11 30
Prices may vary according to market conditions and other factors.

Dec. 8

Dollar Straights

Issuer	Cpn	Mat	Price	Yld Mat	Spd Trsy
Australasia					
Aust Com Bk	10	93	101½	9.62	+119
Australia	11	95	106.050	9.67	+99
Australia	11½	92	109	9.63	+92
Austria Contrl	12¼	92	95⅞	13.49	n.a.
Council Europe	13	93	100⅝	12.92	n.a.
Eurofima	13	92	101	12.65	n.a.
N S Wales Trsy	11¾	90	102⅜	9.74	+104
New Zealand	7¼	89	98¾	9.59	+210
New Zealand	7¾	90	97½	9.58	+182
New Zealand	7½	91	96½	9.88	+178
New Zealand	7⅝	91	94½	9.87	+176
New Zealand	8	93	93¾	9.77	+161
New Zealand	8¼	93	96	9.70	+138
New Zealand	8½	92	95	10.01	+170
New Zealand	10¼	95	100½	10.12	+216
New Zealand	8	97	90¼	9.75	+96
Qantas	10⅜	95	100⅞	9.69	+100
Qantas	8⅝	96	96½	9.79	+96
Queensland	11⅜	89	101⅜	9.47	+104
Queensland	8	91	96⅝	9.77	+176
Queensland	7¼	93	93⅝	9.76	+156
Queensland	10¼	95	102⅜	9.73	+104
St Bk Sth Aust	10¼	92	101¼	9.75	+155
St Bk Sth Aust	9¼	92	90¼	9.77	+146
Sth Aust Gov	9¼	92	98½	9.77	+145
Victoria Sec 5	10	92	101	9.68	+139
Victoria P	11⅝	92	105⅛	9.72	+151
Victoria Sb	9½	93	95¼	9.83	+147
Victoria Publ	8⅝	96	92	9.88	+111
Canada					
B C Hydro	15¼	92	114¾	10.08	+184
B C Hydro	11¾	92	107½	9.71	+129
Bank of Nova S	8⅝	90	97½	9.90	+216
Canada	11½	90	102	9.66	+184
Canada	10	92	103	9.39	+68
Canada	9	94	98⅝	9.32	+60
Canadair	12½	89	102½	9.42	+186
Canadian Pacif	12½	92	104	9.95	+210
Canadian Pacif	7½	96	87	10.05	+131
E D C	12	89	101¾	9.67	+214
E D C	10	90	100½	9.63	+185
E D C	8¼	91	97½	9.80	+161
E D C	8½	92	96	9.95	+175
Farm Credit	7½	93	90¾	9.96	+152
Farm Credit	7¼	96	90⅛	9.65	+90
Manitoba	11¾	89	101¾	9.56	+200
Manitoba	10½	90	101	9.66	+166
Manitoba	8¾	91	97¾	9.93	+200
Manitoba	12½	94	111¾	9.74	+113
Manitoba	7½	96	88⅝	9.76	+101
Olymp York	8¼	96	98¼	10.14	+139
Ontario Hydro	11¼	89	101½	9.44	+199
Ontario Hydro	10½	90	100½	9.77	+182
Ontario Hydro	11¾	90	103½	9.53	+170
Ontario Hydro	13½	91	106⅝	9.88	+194
Ontario Hydro	12¾	92	109½	9.62	+136
Ontario Hydro	15	92	116½	9.99	+175
Ontario Hydro	11⅝	94	107⅝	9.66	+118
Petro-Canada	7¼	96	87⅝	9.65	+91
Prov Albert	7⅝	91	94½	9.56	+142
R B C	8⅝	93	94	10.07	+172
Saskatchew	11⅞	89	103	9.39	+184
Saskatchew	10¾	90	100⅞	9.86	+206
Saskatchew	7½	91	94½	9.96	+192
Saskatchew	8½	91	97	10.04	+209
Saskatchew	10¾	92	101¾	10.06	+186
Saskatchew	15	92	114½	10.02	+178
France					
B F C E	7½	91	94¼	9.67	+157
B F C E	7	92	92⅜	9.71	+150
B F C E	7¼	93	91½	9.65	+134
B F C E	7⅝	96	90½	9.66	+91
B F C E	7¾	97	89½	9.65	+86
B N P	9¼	93	95½	10.07	+174
C A E C L	9⅝	95	97	9.99	+129
C C C E	7⅝	91	93⅝	9.68	+157
C E P M E	7⅜	91	94⅝	9.67	+161
C E P M E	10⅛	91	101½	9.48	+132
C E P M E	7¼	92	93¼	9.71	+150
C N C A	18	96	100⅝	9.53	+166
C N C A	11¼	90	101¾	9.50	+180
C N C A	7¼	91	93½	9.86	+170
C N C A	13¼	91	107¼	9.74	+174
C N C A	11½	92	105	9.62	+141
C N C A	7½	96	90¾	9.86	+137
C N C A	7½	90	87⅞	9.05	+111
C N B	11⅝	95	109¼	9.47	+101
C N T	7	91	93¼	9.71	+157
C N T	13⅜	91	108⅝	9.61	+159
C N T	9½	93	95¼	9.93	+162
Cr Foncier Ew	10⅛	91	102½	9.64	+164
Cr Foncier Ew	12½	92	108¼	9.65	+140
Cr Foncier	7½	94	91½	9.70	+124
Cr Lyon F/P	7¾	93	92½	9.88	+142
Cr Lyonnais	9	91	98½	9.74	+182
Cr Lyonn	8¾	92	96	10.13	+190
Cred National	8¼	92	95⅛	9.65	+132
Credit Nat	7¼	91	93⅞	9.88	+154
Credit Natl	7⅝	92	93½	9.69	+148
E D F	7¼	93	93	9.58	+113
E D F	11⅝	93	105	9.64	+130
E D F	10	95	101¼	9.70	+152
S N C F	11½	93	106⅝	9.60	+128
S N C F	7¼	94	90½	9.68	+121
S N C F	7¾	96	92	9.67	+93
Japan					
Bk of Tokyo	13⅝	89	102¾	9.70	+226
Bk of Tokyo	11	90	101⅞	9.79	+195
Bk of Tokyo	11¼	90	103⅜	9.75	+186
Bk of Tokyo	8	93	93⅝	9.78	+134
Bk of Tokyo	8¾	94	92⅝	9.82	+109
Dai-Ichi	10⅝	96	100½	9.93	+215
Dai-Ichi	12¼	90	103⅜	9.86	+201
Dai-Ichi	8⅛	91	96½	9.89	+192
Daiwa 2	7⅝	93	91⅝	10.07	+161
Dkb Asia	8½	91	96	9.89	+184
Dkb Asia 2	8	93	93	9.88	+146
Fuji B & T	7⅝	91	94½	9.89	+177
Fuji Intl	10⅝	92	101¼	9.79	+185
Ind Bk Jap	7⅝	92	93⅝	9.83	+167
Ind Bk Jap	0	93	93½	9.79	+142
Ind Bk Jap	7⅝	92	89⅝	9.77	+91
Jpp Dev Bk	8	96	93¼	9.63	+110
L T C B	11¼	89	100½	9.41	+231
L T C B	11	90	100⅞	10.11	+238
L T C B	8	91	95⅝	9.91	+186
L T C B	7⅝	93	92⅝	9.44	+149
L T C B	8	96	93⅝	9.76	+142
L T C B	8⅝	93	96⅝	9.69	+127
L T C B	8	96	90¼	9.84	+108
L T C B	8	97	90⅛	9.82	+104
Metro of Tokyo	9½	93	99⅝	9.53	+124
Metro Tokyo	8¼	96	92⅜	9.67	+90
Mitsub Bw	12⅝	89	102¼	9.74	+221
Mitsub Finance	11⅝	92	102	9.81	+204
Mitsub Fin 2	7⅝	93	92⅝	9.88	+143
Mitsub Tst 2	7¼	92	93⅝	9.41	+95
Mitsubishi	7¼	93	93	9.99	+182
Mitsui Tst	12⅝	89	102½	9.60	+208
Mitsui Tst 2	7¼	94	91½	9.96	+144
N C B	13⅞	89	102	9.63	+232
N C B	11	90	101½	9.77	+178
N C B	11⅝	92	103¼	9.91	+204
N C B	7½	91	93⅝	9.96	+181
N C B	8½	91	97¼	9.85	+169
N C B	8	93	93⅝	9.82	+143
N C B	10⅝	95	102⅝	9.84	+115
N C B	10⅝	95	104	9.80	+109
Nippon Tel Tel	9½	95	100	9.48	+80
Nomura Intl	7¼	92	92½	9.90	+174
Panasonic	9	92	98⅞	9.35	+109
Sanwa Intl Fin	11½	92	105	9.69	+146
Sanwa Intl	11⅞	92	102⅜	10.76	+259
Sumitomo	10⅝	90	101½	9.82	+185
Sumitomo 2	7¼	91	94⅝	9.98	+178
Sumitomo	12¾	91	106½	9.68	+169
Sumitomo Bk	7½	92	93⅝	9.83	+178
Sumitomo	11¾	92	105⅝	9.70	+150
Taiyo Kobe 2	7¼	94	91½	9.94	+147
Tokai Asia	11½	95	107¼	9.90	+122
Tokai Bank	7½	91	94⅞	9.93	+193
Toyota	7	89	97¾	9.53	+194
Toyota	8⅝	90	98¼	9.85	+208
Toyota	8⅝	90	97¾	10.84	+227
Toyota	9	92	90¼	10.01	+212
Toyota	7⅛	92	92⅞	9.91	+173
Toyota Motor	8	91	96⅜	9.84	+189
Toyota Motor	8	91	94⅝	9.81	+185
Toyota Motor	8½	91	97	9.92	+179
Toyota Motor	9⅝	90	99½	9.80	+284
Yasuda Tst	12⅝	89	100⅝	9.21	+210
Yasuda Tst	8½	93	95¼	9.82	+144
Scandinavia					
Denmark	7	89	98¼	9.41	+201
Denmark	11¼	89	100½	9.37	+220
Denmark	11½	90	102⅜	9.58	+165
Denmark	8¼	91	96½	9.81	+117
Denmark	12	91	103⅝	10.00	+205
Denmark	13	91	104	10.03	+203
Denmark	13¼	91	107½	9.98	+189
Denmark	7⅝	93	92⅝	9.81	+161
Denmark	11½	93	105	9.63	+141
Denmark	7¾	92	92	9.77	+144
Exportfinans	8½	92	96⅛	9.00	+170
Exportfinans	8½	91	96⅜	9.91	+188
Exportfinans	7¼	92	93.850	9.96	+178

Exportfinans · Fin Export · Finland · Forsmarks · N I B · N I B Ser A · Norsk Hydro · Norway · Oslo · S A S · S E K · Saab Scania · Skandia Ins · Statoil · Sweden · Volvo

Supranational

Council Europe · E C S C · E E C · E I B · Eurofima · I A D B · World Bk

United Kingdom

United States

Western Europe (Other)

Dollar Zero Coupons

DM Straights

European

Supranational

Non-European

DM Zero Coupons

ECU Straights

Yen Straights

Mutual Funds

Figures as of close of trading Friday
Dec. 9

NEW YORK (AP) — The following quotations, supplied by the National Association of Securities Dealers Inc. are the prices at which these securities could have been sold (Net Asset Value) or bought (value plus sales charge) Friday.

	Bid	Ask
CalUS	9.39	NL
USG In	12.27	NL
Eaton Vance:		
EHStk	13.49	14.54
GvtObp	11.24	11.80
Grwth	6.90	7.34
HiYld	5.04	5.29
IncBos	9.63	10.11
Invest	7.06	7.44
MunBd	8.81	9.25
Nautls	10.07	10.57
SpEqt	17.53	19.21
TotRt p	8.05	8.45
VS Spl	10.34	10.86
Eaton V Maratn:		
Specl	5.58	NL
Franklin Group:		
AGE	3.31	3.45
AdjMl	10.10	10.52
AZ TF	10.30	10.73
CalIns	10.77	11.22
CvtSc	9.27	9.66
CpCsh	7.61	7.61
DNTC	11.51	11.99
Equity	6.49	6.76
FedTx	11.13	11.59
Gold	11.44	11.81
Grwth	19.58	20.40
HY TF	10.47	10.91
Mun B	9.35	9.79
Opin	7.65	8.52
Summ	3.82	3.85
Tech	8.55	9.44
Tot Nt	7.13	7.79
US Gv	8.65	9.27
KyTxFr	6.82	6.52
Keystone:		
CusB1 t	15.48	15.48
CusB2 t	18.17	18.17
CusB4 t	6.58	6.58
CusK1 t	8.37	8.37
CusK2 t	6.37	6.37
CusS1 t	19.96	19.98
Tx Fre	11.15	12.12
Mutual Series:		
Beacn	24.16	NL
Qualtd	24.09	NL
Shares	72.48	NL
Nat Avia	10.94	11.49
NatInd	11.91	11.91
Nat Securities:		
Bond	2.45	2.44
CaTxE	12.51	13.10
Fairfd	7.53	7.73
Fedsc	9.82	9.68
Grwth	9.67	10.43
Incom	8.06	8.49
GNM p	9.80	10.29
Georg	12.31	13.45
Globl a	16.62	17.45
GraInc	11.12	12.15
Health	19.53	20.84
HiIncp	10.09	10.82
HI Yld	14.58	15.64
HYdII p	11.44	12.16
Incom	6.81	7.30
IntoSc	15.18	16.57
Int Ep	25.69	28.08
Invest	6.85	7.52
MaTx I	11.88	11.88
MITx t	12.05	12.05
MnTx t	11.94	11.94
Discv	8.75	NL
GvtPlu	9.49	NL
HYMu	11.57	NL
HYBds	9.44	NL
IntMu	10.27	NL
ModBd	8.40	NL
MedM	4.49	NL
PrimE	8.86	NL
Specl	14.99	NL
Stock	14.43	NL
TotRet	22.48	NL
Univ	12.75	NL
Strategic Funds:		
Gold	4.44	5.07
Invst	3.35	3.55

EUROBONDS

New International Bond Issues

Compiled by Bassam Aoun

Issuer	Amount (millions)	Mat.	Coup. %	Price	Price end and week	Terms
FIXED-COUPON						
Industrial Bank of Japan Finance	$200	1993	9⅝	101.45	99.65	Yield 9.46%. Noncallable. Fees 1⅝%. (IBJ Int'l)
BHF Finance (Netherlands)	DM 100	1993	5½	101	—	Noncallable. Fees undisclosed. (Berliner Handels.)
Credit Suisse Finance Guernsey	DM 200	1994	5⅝	101⅝	99.83	Noncallable. Fees 2%. Payable in January. (CSFB Effectenbank)
Dai-Ichi Kangyo Bank Nederland	DM 300	1994	5½	101⅝	99.53	Noncallable. Fees 2%. Payable in January. (Morgan Stanley GMBH.)
IKB International Luxembourg	DM 75	1994	5½	99¾	—	Yield 5.56%. Noncallable. Fees undisclosed. (Industriekreditbank AG.)
Sweden (Kingdom of)	DM 200	1994	5¼	101¼	99.15	Yield 4.96%. Noncallable. Fees 2%. Payable in January. (Morgan Stanley GMBH.)
Trinkaus & Burkhardt Finance	DM 75	1993	5½	101	—	Yield 5.27%. Noncallable. Fees undisclosed. (Trinkaus und Burkhardt KGAA.)
Federal Express Finance	£75	1993	12⅝	101⅝	100.13	Noncallable. Puttable at 100 if issue is rerated below an investment grade rating. Fees 1⅝%. (Credit Suisse First Boston.)
International Finance	Ptas 10,000	1994	11¼	99⅝	98.40	Noncallable. Fees 1⅝%. (Morgan Espana.)
Canadian Imperial Bank of Commerce (Singapore)	C$75	1991	11¼	101.35	100.23	Noncallable. Fees 1⅛%. (Wood Gundy.)
Copenhagen (City of)	C$65	1994	10¾	101½	98.75	Noncallable. Fees 1⅞%. (Deutsche Bank Capital Markets.)
Federal Business Development Bank	C$75	1991	10⅝	101⅛	99.88	Noncallable. Fees 1⅛%. (J.P. Morgan Securities.)
Thomson Brandt International	C$75	1991	11¼	101½	—	Noncallable. Fees 1⅛%. (Union Bank of Switzerland.)
Akzo	Aus$50	1992	14⅝	101⅞	100.23	Yield 13.57%. Noncallable. Fees 1⅝%. (Bayerische Vereinsbank.)
Australian Telecommunications Commission	Aus$50	1992	12½	97	95.20	Noncallable. Fees 1⅝%. Fungible with a Aus$150 million bond issued on Oct. 22. (Samuel Montagu & Co.)
Eurofima	Aus$45	1992	14	101⅝	99.65	Noncallable. Fees 1⅝%. (Deutsche Bank Capital Markets.)
Finance Company of South Australia	Aus$50	1991	15	101.60	100.35	Noncallable. Fees 1⅜%. (Credit Commercial de France.)
Primary Industry Bank of Australia	Aus$50	1992	14½	101⅝	99.90	Noncallable. Fees 1⅝%. (Westdeutsche Landesbank-Girozentrale.)
Unilever Capital	NZ$60	1992	14	101⅞	100.38	Noncallable. Fees 1⅝%. (Hambros Bank.)
World Bank	NZ$75	1994	14	102	100.25	Noncallable. Fees 1⅞%. (Hambros Bank.)
Nippon Telegraph & Telephone	¥50	2004	4.90	99	—	Yield 5.016%. Noncallable. Fees 1⅝%. (Yamaichi Securities.)
EQUITY-LINKED						
Daishinpan Co.	$100	1992	open	100	99.00	Coupon indicated at 4⅝%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2⅝%. Terms to be set Dec. 13. (New Japan Securities Europe.)
Life Co.	$80	1992	open	100	99.75	Coupon indicated at 5⅛%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2⅝%. Terms to be set Dec. 12. (Nikko Securities Co. Europe.)
Nippon Stainless Steel Co.	$100	1992	open	100	104.75	Coupon indicated at 4⅝%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2⅝%. Terms to be set Dec. 12. (Yamaichi Int'l.)
Sumitomo Rubber Industries	$100	1992	4½	100	—	Noncallable. Each $5,000 note with one warrant exercisable into company's shares at 1,056 yen per share. Fees 2⅝%. (Daiwa Europe.)
Tokyo Steel Co.	$120	1992	open	100	108.50	Coupon indicated at 4⅝%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2⅝%. Terms to be set Dec. 13. (Nomura Int'l.)
Associated Newspapers Holdings	£60	2003	8¾	100	98.75	Callable in 1993 at 101 declining to 100 in 1994. Issue is convertible into Reuter's B shares at 538 pence per share, a 15.08% premium. At issuer's option, cash can be paid in lieu of stock. Fees 2½%. (Baring Bros.)
Dawson Finance	£30	2004	9⅝	100	—	Callable in 1993 at 100. After 90 days each preference share is convertible into company's shares at 216 pence per share, a 10.50% premium to wednesday's closing share price of 195.50. Fees 2½%. (Credit Suisse First Boston.)
Smith & Nephew Finance	£80	2004	8¾	100	99.75	Callable in 1993 at 100. Each preference shares is convertible into company's share at 126.50 pence per share, a 10.40% premium. Fees 2½%. (Credit Suisse First Boston.)

Bank Regulators Put Off Ruling on Capital Notes

By Carl Gewirtz
International Herald Tribune

PARIS — Banking supervisors failed to resolve the question of whether commercial banks can count as core capital the money raised through the sale of subordinated perpetual floating-rate capital notes.

Meeting at the Bank for International Settlements in Basel, Switzerland at the start of the month, the supervisors appointed a committee to explore the issue and report back no later than the end of next March.

As a result, the scheduled sale of $400 million of such notes by Banque Nationale de Paris is being delayed and may be canceled.

Although the notes have been placed with Japanese investors, the state-owned bank has reserved the right to not complete the sale and cancel the operation if the proceeds cannot be counted as Tier 1, or core capital, under the new international-capital-adequacy guidelines established by supervisors under the aegis of the BIS.

Meanwhile, the first British-based bank to use the instrument will proceed with its offering. That is because the Royal Bank of Scotland, which has appointed Swiss Bank Corp. to arrange the sale of $500 million such notes, is not seeking to have the proceeds counted as core capital but as Tier 2, or supplementary capital.

The only point troubling banking supervisors is whether the money raised qualifies as Tier 1 capital. There is no objection to Tier 2 status.

The difference between core and supplementary capital is significant. Under the new supervisory rules, by the end of 1992, international banks must have equity capital equal to a minimum of 8 percent of their risk-weighted assets.

Tier 1, or core capital, is a kind of high-powered money which determines how fast the bank can expand, since core capital has to account for at least 4 percent of the total 8 percent. By contrast, supplementary capital is restricted to counting for no more than half of a bank's equity capital.

Core capital must consist of either share capital or disclosed reserves and the question supervisors must answer is whether the subordinated perpetual notes are the equivalent of noncumulative preference shares.

Selling shares, any kind of shares, in the current market environment where bank paper is not highly valued by investors is a route bank managers prefer to avoid.

But the hard-liners among the supervisors want to use the discipline of the marketplace to force bank managers to focus more on profits and return on equity.

By improving performance, the reasoning goes, banks can force up the value of their shares to trade at a premium to book value rather than the current discount. And at that point, banks would have every incentive to issue new stock.

For the hard-liners, the perpetual notes are viewed as a gimmick designed to circumvent having to improve performance so that real equity could be sold.

The new instrument is perpetual in name only. Essentially, the banks are selling 15-year floating-rate notes at an extremely generous 1 percentage point to 1.1 percentage points over the London interbank offered rate. That is about four times more than the return on traditional floating-rate instruments.

In exchange for the very high return, investors run the risk that the interest may not be paid.

Although the specific wording of the loan agreements is not public, the general thrust is that interest payments may be skipped if the bank runs a loss and omits paying dividend on its common stock. There is no obligation to make up any missed interest payments once the bank is operating profitably again.

In any event, the interest payments officially cease after 15 years, at which point holders can exchange their notes for cash. Redemption is made possible because the issuers never receive the full amount of the money raised.

The perpetuals are initially sold at a discount of about 20 percent to the underwriter. The notes are then sold to investors at face value and the underwriter uses the 20 percent difference to set up a special trust which invests the money in zero-coupon U.S. government bonds. After 15 years, the maturity value of the zeroes is equal to the amount needed to redeem perpetuals.

Thereafter, the special trust owns the perpetuals which are essentially worthless.

The issuers can afford to pay such a high rate of return on the perpetuals because interest payments are a tax-deductible expense, whereas dividend payments on common stock or preferred shares are not.

This tax angle is said to explain why the Royal Bank of Scotland is willing to use the formula even though it is not seeking to have the proceeds considered as core capital.

The argument that the new instrument enables banks to escape the discipline of the marketplace is muddied by the fact that Banque Nationale de Paris and Crédit Lyonnais — the first major bank to use the formula — are state owned.

The current French government is opposed to privatizing the banks and, in its effort to reduce the overall budget deficit, is clearly loath to directly increase the banks' capital.

For BNP and Crédit Lyonnais, the new instrument opens a way to raise capital from investors without diluting the state's ownership or calling on its resources.

However, the hard-liners among the supervisors challenge the notion that the perpetuals are comparable to equity.

They argued at the Basel meeting that equity is a shock absorber: Its value can be written down if a bank ever sustains substantial losses. The hard-liners challenge whether the perpetual notes have this capacity.

DOLLAR: *U.S. Statistics Are Likely to Stir Market*

(Continued from first finance page)
port retail sales Tuesday; industrial production and capacity utilization Thursday; and producer prices and housing starts Friday.

All these figures are for November and should help clarify whether or not the Federal Reserve Board needs to be tightening monetary policy to restrain a rate of expansion that is likely to fuel inflation.

The Fed's policy-making Open Market Committee will also be meeting this week.

The prospect of higher interest rates would be good news for the dollar.

Whatever the figures, traders expect the foreign-exchange market to overreact, as it did last week to the announcement Wednesday by Mikhail S. Gorbachev, the Soviet president, of a unilateral troop reduction. The dollar soared to a weekly high of 1.7730 Deutsche marks from 1.7372 the day earlier and to 124.15 yen from 121.92.

By Friday's close in New York, the dollar was down to 1.7375 DM and 122.65 yen, but still above the previous week's close at 1.720 DM and 121.27 yen.

Currency dealers warn that trading in the year-end period, when most professional participants have withdrawn from the market to prepare their annual reports, tends to be particularly erratic.

Thus, the immediate afterglow to Mr. Gorbachev's speech had the United States significantly reducing its own defense spending and thereby cutting its excessive budget deficit. Upon reflection, however, it was realized that such benefits may be long in coming.

"Because the U.S.S.R. now enjoys a huge advantage in conventional forces, the United States may not necessarily match the planned Soviet cuts," Salomon Brothers Inc., the New York investment bank, said in its weekly commentary.

"Economic limitations may inevitably squeeze the U.S. defense sector, but significant reductions in future military outlays are years away — even if defense spending is reduced below the zero real growth path now likely. Thus, a quick reduction in the budget deficit through curtailed defense spending appears unlikely," Salomon said.

Currency dealers agreed the dollar's initial surge was largely a reflection of the prevailing negative mood concerning the outlook for the currency. Positions that were open anticipated further dollar declines and had to be reversed, causing a temporary buying spree.

Nevertheless, the week's action shows that "the dollar is like a barrel of gunpowder, waiting to be ignited by the smallest hope of positive news," said Roland Scharf, treasurer at Hessische Landesbank in Frankfurt.

"Market sentiment is so totally pessimistic that anything positive could send the dollar soaring," he said.

Mr. Scharf said he doubted Friday's rumors circulating in Frankfurt that the Bundesbank would shortly raise its Lombard rate, its charge for lending to banks against securities as collateral. The rate is currently 5 percent and rumors of a half-point increase were rampant.

An increase in West German rates, Mr. Scharf said, would create problems for the French franc within the European Monetary System — a development the West German authorities would seek to avoid in the run-up to France's municipal elections in March.

But other traders said the weakness of the mark relative to currencies not tied to the EMS — the British pound and the Spanish peseta in particular — as well as within the EMS, especially against the lira, was totally unjustified given the size of West Germany's trade surplus. It calls either for an early revaluation of the mark or higher West German interest rates.

As far as technical analysts are concerned, the dollar's performance last week was not so strong or sustained to justify a change in the immediate outlook.

Steven Blitz, analyst at Salomon Brothers, is advising clients to use dollar weakness to close out their dollar sales, or short positions, and to begin to bias their positions in favor of a stronger dollar.

While he warns that the dollar could dip to around 1.65 DM and 116 yen over the next few weeks, he sees the rates six months from now at 2.20 DM and 160 yen.

Based on daily closing prices, the charts are signaling that the dollar should be bought, he said.

Rate Inversion With a Fed Message

Compiled by Our Staff From Dispatches

NEW YORK — The 30-year U.S. Treasury bond ended last week higher even though short-term interest rates rose above long-term returns in the first across-the-board inversion of the yield curve since 1982, analysts said.

Peter Niculescu, a bond market analyst for Salomon Brothers Inc., explained that such an inversion is often a function of the Federal Reserve tightening the monetary system. "The Fed is very interested in fighting inflation and it's Fed policy that is causing the inversion," he said.

At the close on Friday, the Treasury's 2-year notes were yielding 9.05 percent, compared with the 8.96 percent yield on the 30-year bonds.

The price of the long bond rose to 100 13/32 from 98 8/32 the previous Friday, when the yield was 9.17 percent.

Some analysts attributed a rally on Tuesday to rumors that Mikhail S. Gorbachev, the Soviet president, would offer to reduce Soviet troop strength. The rumors were confirmed the following day and financial markets rallied on speculation that the United States would also plan to cut conventional forces, which in turn would help reduce the budget deficit.

Others, however, said the bond market rally was caused by the flattening of the yield curve, which can be interpreted as a sign of an impending recession, and ultimately, lower yields.

S.E. Canaday Jr., a vice president of John Nuveen & Co.'s bond department, said that on the surface it appeared that two sectors of

U.S. CREDIT MARKETS

the bond market — Treasuries and municipals — "overreacted to events which might possibly affect the U.S. budget in future years but should have little immediate impact."

Shearson Lehman Hutton Inc.'s index of long-term Treasury bonds rose 22.54 points to 1,250.27 on the week.

The latest 10-year Treasury notes rose to 98 22/32 from the previous week's 98 4/32, with the yield declining to 9.08 percent from 9.16 percent. Seven-year notes ended at 97 16/32 to yield 9.12 percent.

On Friday, the federal funds rate, which banks charge each other, traded at 8.5 percent without any move by the central bank to reduce it.

"The Fed's outward tolerance of a high funds rate and the desire of many investment-fund managers to temporarily dress their end-quarter and year-end statements with high-income paper is another major reason for the drop in 90-day bill rates this week," said William V. Sullivan Jr., senior vice president at Dean Witter Reynolds.

"The market had expected the Fed to intervene to lower the funds rate."

In late dealings, the discount rate on Treasury 90-day bills was down eight basis points on the day, at 7.89 percent. This is almost a quarter point below the rate on these bills one week ago. *(UPI, NYT)*

Treasury Bonds

Dec. 9

Maturity	Close Bid	Ask	Yield	Wk-ago yield
30.09.90	99 21/32	99 23/32	9.05	8.83
15.05.91	98 17/32	98 19/32	9.07	9.10
30.09.92	98 27/32	98 29/32	9.10	9.10
15.02.93	99 1/32	99 3/32	9.09	9.11
15.01.95	97 15/32	97 17/32	9.12	9.16
15.08.98	98 21/32	98 23/32	9.08	9.16
15.02.08	103	103 4/32	9.02	9.17
15.05.18	100 12/32	100 14/32	8.96	9.17

Source: Salomon Inc.

U.S. Consumer Rates

Dec. 9

Tax Exempt Bonds Bond Buyer 20-Bond Index	7.48 %
Money Market Funds Donoghue's 7-Day Average	8.17 %
Bank Money Market Accounts Bank Rate Monitor Index	6.15 %
Home Mortgage, FHLB average	10.59 %

Source: New York Times.

Ford Seen as Bidder For Failed Denver S&L

New York Times Service

WASHINGTON — The Federal Home Loan Bank Board said it has taken over the insolvent $2.3 billion Silverado Banking Savings & Loan Association of Denver and will offer it for sale after providing $1.05 billion in aid.

The agency said on Friday it was seeking multiple bids on Silverado, but industry officials said the most likely buyer was Ford Motor Co., particularly since Ford's First Nationwide Bank subsidiary was designated Friday to provide management to the institution. First Nationwide would not comment.

EUROBONDS: *Flood of Equity-Linked Issues Seen*

(Continued from first finance page)
teemed borrowers — Eurofima, the Australian Telecommunications Commission and the Finance Co. of South Australia — but also higher coupons. South Australia's three-year notes carried a coupon of 15 percent and a premium issue price of 1.6 percent, while Akzo's four-year paper carried a coupon of 14⅝ percent with an offering price of 101⅞.

The inverted yield curve, where shortest dated paper yields more than longer-term securities, is also a feature of the Canadian dollar sector and last week also became apparent in the U.S. dollar sector.

The New York bond market closed last week with 30-year Treasury bonds yielding 8.96 percent, while 10-year Treasuries ended at 9.08 percent. At the shorter end of the market, the slope was still positive, but narrowing fast. A mere three basis points separated yields on two-year and 10-year paper. Many experts predict the yield gap will also invert on these shorter-dated ranges with two-year money becoming more expensive than 10-year or 30-year funds.

The immediate cause is a hardening of short-term interest rates and a perception that the Federal Reserve Board is tightening policy in an effort to cool the pace of economic expansion and restrain inflation.

The lower yield on 30-year paper indicates bond investors believe that the tightening of monetary policy is temporary and will succeed in nipping inflation.

"The inversion is reasonable," says Giles Keating, London-based economist for Credit Suisse First Boston, "given the determination of the Fed and its high degree of anti-inflation credibility in the market."

But the inversion of the yield curve is one more reason why borrowers can be expected to shun issuing straight Eurodollar bonds. In fact, only one issue was marketed last week, for the Industrial Bank of Japan. Its $200 million issue of five-year notes was offered to yield 39 basis points over the yield on similarly-dated Treasury paper and ended the week at a spread of 49 basis points over the benchmark rate.

As long as low-cost swaps can be arranged using Australian, Canadian or New Zealand dollars, issuers can comfortably afford not to have consider issuing in U.S. dollars. But one consequence of this is a marked shortening of maturities, for even in the more exotic markets the inverted yield curve means long-term paper is shunned by investors.

The bulk of last week's issues were for three and four years. Only in the Deutsche mark sector was there a sustained attempt to issue six-year bonds, and even there demand was spotty.

Sweden, Credit Suisse and Dai-Ichi Kangyo Bank reportedly swapped the proceeds of their issues into floating rate marks at levels around 50 basis points below the interbank offered rate. But the issues all traded outside fees paid to underwriters.

Bankers say that institutional investors, who can afford to evade the incoming withholding tax on West German domestic interest payments, prefer higher-yielding domestic government paper. Meanwhile retail investors see little attraction in Deutsche mark Eurobonds since the higher yields available elsewhere appear more than adequate to compensate for possible currency changes.

The only U.S. company to tap the market last week was Federal Express Corp., which sold £75 million of five-year bonds. To overcome investor concern about "event risk" of U.S. names, the company undertook to redeem the bonds at par if its credit rating, currently single-A, ever falls below triple-B, which is the lowest category considered investment grade. The lead manager, Credit Suisse First Boston, estimated the company was able to reduce its borrowing cost by 15 basis points thanks to the inclusion of that clause. As it is, Federal Express paid 120 basis points over gilts for its money.

WORLD STOCKS IN REVIEW / *Via Agence France-Presse*

Amsterdam

The market advanced moderately, taking the ANP-CBS index to 277.2 on Friday from 272.8 a week earlier. Turnover for the week rose to 6.5 billion guilders from 4.8 billion the previous week.

Insurance companies announced good third-quarter results, but these were not reflected in share prices.

Frankfurt

Prices advanced, stimulated by foreign buying and the strong performances in Tokyo and on Wall Street that followed the troop-reduction announcement by President Mikhail S. Gorbachev of the Soviet Union. The Commerzbank index rose 37.1 points on the week, closing Friday at 1,616.4.

Volume on the eight exchanges jumped to 17.67 billion DM for the week, against only 10.83 billion the previous week.

Hong Kong

Prices showed slight gains, but most investors took a wait-and-see attitude. The Hang Seng Index gained 4.10 points on the week, rising to 2,671.36, while the broader-based Hong Kong Index rose 2.71 points, closing at 1,761.29.

London

The market remained in the doldrums to record its third successive weekly fall. The Financial Times industrial index fell 7.7 points on the week, to 1,429.4, while the 100-share index lost 7.2, to 1,750.7.

News that the securities house Morgan Grenfell was withdrawing from market-making and laying off 450 employees cast a shadow over the market.

Worries over the effect of the strong pound on exporters and fears of interest-rate rises also darkened the tone.

Initially, disappointment over the premium on British Steel shares, which began trading Monday, depressed the market, but early gains on Wall Street limited the fall. The market edged higher Tuesday and Wednesday, encouraged by the dollar's rise after the Soviet defense proposal.

Milan

The Comit index eased to 575.63 points from 585.25 the previous Friday, on low volume that averaged 132 billion lire a day, down from 145 billion the previous week.

Almost all issues fell, with Olivetti losing 2.64 percent and CIR 2.92 percent.

Paris

Prices inched up in thin trading to close the CAC index at 394.2, up from 392.3 a week earlier. Turnover averaged only 1 billion to 1.3 billion francs a session on the monthly settlement market, where 2 billion would be considered active.

The Bourse again displayed insensitivity to information that might worry it, like rapid world growth and accompanying risks of inflation, plus continuing labor conflict in France.

Singapore

The Straits Times industrial index rose 2.89 points, ending the week at 1,002.26, while the SES all-share index gained 2.71 points, to 284.96.

Dealers said bargain hunting and speculative activity toward the end of the week steadied the market after a fall Monday, which was caused by weak sentiment abroad.

Tokyo

The Nikkei average hit the 30,000-yen mark for the first time Wednesday before closing the week at 29,793.42 on Friday for a gain of 127.92 yen over the previous week's close. The Nikkei has been rising for nine weeks.

The market was closed Saturday.

Wednesday's surge to 30,050.82 yen was due largely to futures-related buying of financial issues and high-technology stocks, dealers said.

Zurich

The Credit Suisse index rose to 513.8 on Friday from 509.9 a week earlier, while the Swiss Bank Corp. indicator rose to 552.0 from 547.0.

Euromarts At a Glance

Eurobond Yields

	Dec. 7	Nov. 30
U.S. $ int'l inst. 8 yrs & over	9.43	9.54
public issuers, 8 yrs & over	9.49	9.51
other issuers, 8 yrs & over	9.45	9.43
other issuers, 5 to 7 yrs	9.41	9.52
Pounds sterling, 5 to 7 yrs	11.23	11.21
French francs, less than 5 yrs	8.66	8.65
ECU, 5 yrs & over	8.01	7.96
5 to 7 yrs	7.88	7.84
Can. $, 5 to 7 yrs	10.56	10.67
Aus. $, less than 8 yrs	13.82	13.75
N.Z. $, less than 8 yrs	13.34	13.27
Yen, 8 yrs & over	5.53	5.55
5 to 7 yrs	4.95	4.93

Source: Luxembourg Stock Exchange.

Weekly Sales

Dec. 2

Primary Market

	Cedel $	Cedel Num.	Euroclear $	Euroclear Num.
Straights	18.80	893.70	371.90	731.20
Convert.	—	—	—	—
FRNs	770.80	—	2,159.10	29.40
ECP	1,669.50	121.80	5,379.50	934.90
Total	2,389.30	1,014.90	7,910.50	1,695.70

Secondary Market

	Cedel $	Cedel Num.	Euroclear $	Euroclear Num.
Straights	3,585.90	9,516.90	6,347.20	9,339.20
Convert.	182.70	687.50	827.90	517.50
FRNs	720.40	1,796.10	5,305.60	3,841.10
ECP	2,314.60	698.30	2,222.90	348.60
Total	6,619.60	12,678.80	14,903.60	14,045.40

Source: Euroclear, Cedel.

Libor Rates

Dec. 9

	1-month	3-month	6-month
U.S. $	9 9/16	9 7/16	9 7/16
Deutsche mark	5 11/16	5 9/16	5 9/16
Pound sterling	13.06	13⅛	13⅛
French franc	8⅛	8¼	8 7/16
ECU	8 1/16	8 1/16	8 1/16
Yen	4 11/16	4 9/16	4⅝

Source: Morgan Guaranty, Lloyds Bank, Reuters.

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NASDAQ National Market

OTC Consolidated trading for week ended Friday. Dec. 9

	Div.	Yld.	Sales in 100s	High	Low	Close	Net Ch'ge
A							
A&W Bd			2090	18½	16½	17¼	—1¼
ABS	.96	6.6	67	14½	16	14½	
ABQ			4331	4⅛	3¾	4	— ⅜
ACC Cp			1214	5⅝	4⅞	4⅞	[illegible]
ADC			1218	13	12	12¾	+ ⅝
ADT			7780	21¾	21	31	— ⅜
AEL			782	7½	7⅛	7½	+ ⅛
AEP			452	11¾	18¼	11¾	+1⅛
AIM Tel			111	4½	4¼	4¼	— ½
AIRCOA	.10i	2.6	4	3⅞	3⅛	3⅞	+ ⅛
ALC Cm			1819	2	1⅞	1[illegible]	— [illegible]
AME			412	10⅛	9¾	9¾	— ⅜
ASK			2375	15½	14⅞	14⅞	— ½
AST			10867	9	7⅜	7½	—1
AarnRt	.18	1.0	111	10¼	9¾	9⅞	— ⅛
AbingB	.140	1.8	240	8	7¾	7⅞	— ⅛
AbeLinc			116	16¼	15⅝	16½	
Abram s	.24	4.3	156x	5⅝	5½	5⅝	— ⅜
AcadInt			2738	1[illegible]	1[illegible]	1[illegible]	— [illegible]
Accel	1		125	7	6¾	7	+ ¼
AcepIIn			268	11¾	11¼	11⅛	— ⅛
Aceto	.14b		575	15⅞	15⅛	15½	+ ⅜
ACMT			19	9½	8⅛	8½	
AcmeSt	.05e	.3	416	24	21¼	23¼	+1¼
ActAR1 s			445	17½	17	17	— ¼
ActAuSl			20	5¼	4⅞	4⅞	— ⅜
Actmed			4013	8¼	7¾	8	+ ½
Acxiom			3580	13½	12⅛	12½	—2¼
AdacLb			17023	4¼	3¾	4⅛	+ ⅜
Adage			8097	1	1¼	1⅛	+
[illegible]							

	Div.	Yld.	Sales in 100s	High	Low	Close	Net Ch'ge
BaryJw			257	11¾	10½	11¾	+1⅜
BsTnA			188	5¼	4¼	4¼	
BosAm			96	3½	2⅞	2⅞	
BeRInt			4058	⅛	[illegible]	[illegible]	—
BsetF	1.00	2.5	484	40½	37¾	39¼	+1½
BayVw			2799	16⅞	15½	16⅞	+ ⅜
BayaSL			84	20½	19¾	19¾	— ½
BayBks	1.60	3.5	2459	46¼	45¾	46¼	+ ⅜
Bayly			56	3⅜	1¾	2½	+ ¼
BeautIC			903	13⅜	11¾	12½	—1½
BeaulL			154	5	4⅜	4⅞	— ⅛
Beebas	.03e	.4	74	7½	7¼	7⅜	— ¼
Bechm s	.59e	3.5	9648	17	16⅛	16⅞	+ ¼
BelFuse			340	7¼	7⅜	7½	— ⅛
BellW			122	5⅞	5½	5½	
BellSu			54	9⅛	9	9⅛	+ ⅛
Belmr1			365	1⅜	1	1	
BenJer			271	16¼	15½	15¾	+ ¼
Benhan			622	2⅞	2½	2½	— ⅛
BenlSv			937	4⅝	4⅜	4⅜	— ⅜
Berkley	.36	1.2	2650	30¼	29¼	29⅞	— ⅜
BerkGs	1.20	7.4	44	17¼	16½	16⅞	— ⅜
BerryP	1.00	3.6	18	28	27	28	+1
BethlBc	.16e	1.2	13	14	13½	13½	— ½
BelzLb	1.60	3.5	1253	47½	46¾	47½	+ ¾
Big B	.16	1.3	932	13½	12¾	12¾	— ⅜
BgBear	1		673	26¼	20	20⅜	
Bindly			120	7	6¾	6¾	
BingKg			31	3	2¾	2¾	— ¼
BioLog			301	3½	3¼	3[illegible]	— [illegible]
BlMedc			597	10¾	10½	10¾	+ ½
Biomer			444	¾			+
Biogen			2225	7¾	7⅛	7¾	+ ⅛
[illegible]							

[illegible]

(Continued on next page)

[C]ARS: Although

(Continued from first finance page)

[...] the visible "internationaliza[tion]" [...] of the Japanese consumer, [appe]ar to have brought overseas [auto]makers to a turning point: Dif[ficult] or not, the world's second-[larg]est auto market after the Unit[ed St]ates can no longer be ignored, [they] are concluding.

"No international car maker can [disre]gard this market," Mr. Paysen [of] BMW said. "If you want to stay [activ]e as an global marketer, you [have] to face the Japanese on their [own] territory."

[T]here is a certain course that [...] foreign manufacturers in Ja[pan] must follow. Step one is the [...] agent: Yanase & Co., the larg[est] local concessionaire, handles [suc]h overseas makes as General [Mo]tors Corp., Volkswagen and [Merce]des-Benz, the latter two in

[illegible]

Chicago Exc[illegible]

Figures as of [illegible]

[illegible]

American Ex[illegible]

Figures as of [illegible]

[illegible]

CARS: *Although the Problems Are Immense, Foreign Carmakers Find Japan Impossible to Ignore*

(Continued from first finance page)

with the visible "internationalization" of the Japanese consumer, appear to have brought overseas car makers to a turning point: Difficult or not, the world's second-largest auto market after the United States can no longer be ignored, they are concluding.

"No international car maker can disregard this market," Mr. Paysen of BMW said. "If you want to stay alive as an global marketer, you have to face the Japanese on their own territory."

There is a certain course that most foreign manufacturers in Japan must follow. Step one is the legal agent: Yanase & Co., the largest local concessionaire, handles such overseas makes as General Motors Corp., Volkswagen and Mercedes-Benz, the latter two in parallel with recently established arrangements.

Second comes the joint-venture sales company with a local auto maker: Mercedes with Mitsubishi, Ford and Citroën with Mazda. Only when the possibilities of such links are exhausted do foreign firms make the ultimate, and most expensive, commitment: their own distribution, sales and servicing network.

The difficulties in establishing such a network are legion. Among the most onerous are training and keeping technical personnel, convincing entrepreneurs that an exclusive dealership can be profitable, finding affordable, well-positioned land.

But the advantages are essential, say executives who have taken the plunge. Chief among them is the ability to respond quickly to market dictates. In 1984, when sales of BMW's 3 series were "absolutely dead," Mr. Paysen discovered the snob appeal of left-hand drive in a nation that normally uses the right-hand side. Now 80 percent of 3 series cars sold here are left-hand drive and the series accounts for two-thirds of total sales.

"Being on our own means taking our own risks, with our own ideas and our own money," says Ralph Johansson, president of Volvo Japan since he established it two years ago. "But most important, it means quicker decisions."

With 110 dealers nationwide and a 21 percent share of the import market — the largest of any foreign producer — BMW is probably the best example of what it takes to make it in Japan. Mr. Paysen's strategy, indeed, has made him part salesman, part financier, part technician and part sociologist.

The executive's first step was to assess economic and social change in Japan and position BMW as "an expression of individuality, a lifestyle product," as he puts it. He also began providing attractive credit arrangements, which are unusual in Japan, and reduced the price gap between BMWs and roughly comparable Japanese models from 100 percent to 20 percent to 25 percent.

The BMW 3 series, which accounts for 65 percent of sales, currently retail in Japan for about 3.6 million yen ($29,350) each. Cars in the 7 series, which accounts for about 20 percent of sales, start at about 13.5 million yen.

Among other foreign makes, the Volvo 240GL model retails for about 4.4 million yen, which is about 15 percent cheaper than comparable Japanese models. Volvo's higher priced models include the 740, which retails for 5.5 million yen and the 760GLE which goes for about 7 million yen.

Finally, there is the commitment to developing BMW's 500 employees, 494 of whom are Japanese. Like his giant Japanese competitors, Mr. Paysen recruits annually in Japanese universities, seeking 25 graduates "who are independent-minded but can be part of a BMW team."

Mr. Paysen insists that this formula — marketing, financing, pricing and training — can work for other manufacturers. But he also admits that West German auto makers account for almost three-quarters of the import market partly because of the longstanding respect the Japanese have had for their craftsmanship, engineering and technology.

Where does this leave U.S. manufacturers? Many analysts insist that their best shot at the Japanese market lies in marketing models intended for the European market or, like the popular Probe model from Ford Motor Co., developed in conjunction with a local auto maker. That is the case with Ford and Mazda.

After a late start, Ford recently expanded its dealer network in Japan by 50 percent and has increased sales almost fivefold this year, to a still-modest 2,200 units. Next year the company wants another fivefold sales increase, to 10,000 units. Longer term, it is looking for a 10 percent share of the import market.

Chrysler's entry into the market next month, with five unmodified car models and 13 standard variations on the Jeep, will raise the old questions for U.S. manufacturers all over again: Are American products right for the Japanese consumer? Are they made well enough?

"It's difficult to say how we're going to do," admitted Sadayoshi Hori, president of Chrysler Japan Sales Ltd.

GAF Stock Fraud Case Is First Tied to Boesky

Reuters

NEW YORK — The first stock manipulation case based on information obtained from Ivan F. Boesky, the imprisoned former speculator, is set to begin Monday against GAF Corp. and one of its top executives.

GAF and James Sherwin, its vice chairman, were indicted in July for allegedly manipulating the price of Union Carbide Corp. shares upward in 1986 after an unsuccessful attempt to take over the company. Jury selection in the trial is scheduled to begin Monday in U.S. District Court in New York. Both GAF and Mr. Sherwin have denied wrongdoing.

The 10-count indictment marks the first time an industrial concern has been charged in the government's probe of insider trading involving Mr. Boesky.

The indictment alleges that GAF secretly agreed with Los Angeles-based Jefferies & Co. to buy blocks of Union Carbide stock in order to drive up the price. This would have allowed GAF to sell the Union Carbide shares it still held after the failed takeover attempt at an improved price.

Each defendant in the case is charged with one count of conspiracy to manipulate the stock, one count of stock price manipulation, three counts of securities fraud, three counts of wire fraud, one count of causing the creation of false entries in a broker-dealer's books and records, and one count of obtaining improper margin loans to finance stock purchases.

The trial will be the government's first attempt to convince a jury of allegations stemming from the Boesky affair.

Chicago Exchange Options

Figures as of close of trading Friday. Dec. 9

Option & price — Calls — Puts

r—Not traded. s—None offered. o—Old.

American Exchange Options

Figures as of close of trading Friday. Dec. 9

Option & price — Calls — Puts

Total volume 128,487

Open interest 2,458,331

r—Not traded. s—None offered. o—Old.

NASDAQ National Market

OTC Consolidated trading for week ended Friday.

Sales in 100s — High — Low — Close — Net Chg.

(Continued)

Wall Street Review

NYSE Most Actives

	Vol.	High	Low	Last	Chng.
LILCo	181544	15⅝	11½	12¼	−3
RJR Nb	153319	92½	89	89⅝	−1½
OcciPet	132100	26	25	25¼	+½
BritPt pp	120468	11⅝	11	11	
Teeco	111417	52⅝	47½	50½	+3½
ConIll	108462	5½	5¼	5¼	
AT&T	99723	30⅛	28⅞	29½	+⅛
Interco	85486	32⅝	29	31⅝	+2½
GenEl	83325	46⅜	44⅛	45⅝	+2
SmkBck	71459	52½	46¼	50¼	+4⅝
Upjohn	70975	28⅛	27	28¼	−¼
Exxon	61616	44¾	42½	44⅝	+2¼
IBM	60906	122¾	119⅝	120⅝	+1⅛
USFG	60586	31½	30	30⅞	+½
PacGE	59816	18⅛	17⅞	18	+⅜
EKodak	46627	47¾	44¾	45¾	+⅜
Chrysir	44915	27¼	26½	27	+1¼
Unisys	43960	29½	27⅞	28½	+⅜
FordM s	42916	53⅛	51⅞	52⅞	+⅝
GMot	42775	87½	83¾	86½	+2⅞
FHm pfA	40841	53	47½	47⅞	−3¼
Navistr	40604	5¼	5	5	−⅛
AlgPw	40188	38¼	37	37¼	+¼
Motorla	39929	40⅜	39½	40⅜	+1½
AmExp	39373	28⅛	27⅛	27⅝	+⅜

AMEX Most Actives

	Vol.	High	Low	Last	Chng.
WangB	24162	8⅞	8¼	8⅝	
TexAir	21139	14⅛	12⅝	12⅝	−1⅝
Amdhl s	17966	19½	18¼	18⅞	+1
CmpCn	17826	12⅞	12¼	12⅞	+4⅝
FruitL	12277	5⅝	4⅞	5½	+¼
EchoBy	11195	15⅜	14¼	14⅛	−⅝
MagmC	10281	7½	6⅞	7⅜	+½
NY Time	8447	28¼	26½	27	−⅜
FAusPr	8287	10	9¾	9⅞	−⅛
TubMex	7310	5¾	5¼	5⅜	+⅜
LorTel	6524	12½	11	11½	−¼
FurVit	6020	2¾	2¼	2⅜	−¼
InfoSy	5578	2½	2	2⅜	−½
TIE	5262	1⅝	1⅛	1½	+⅜
WDigitl	4740	13¼	12¼	12⅝	+¾
ENSCO	4474	1⅞	1⅝	1¾	
Hasbro	4184	16⅛	15¼	15⅝	−⅛
BAT	3956	8	7⅝	8	
Florbd n	3867	21¼	16⅝	20¼	+3⅝
HomeSh	3821	5⅛	4¾	4⅞	−⅛
Viacm pt	3540	25¼	24⅞	24⅞	+⅛
Maxam	3431	25¼	19⅛	24¼	+4⅞
CoronA n	3410	6⅞	6⅛	6⅜	−½
A-att2 sc	3194	6¾	6	6½	+⅜
ICH	3159	5⅝	4⅞	5½	+⅛

NYSE Sales

	Sales Vol.
Total for week	709,280,000
Week ago	662,700,000
Year ago	946,040,000
Two years ago	689,940,000
Jan 1 to date	38,967,907,448
1987 to date	45,580,490,000
1986 to date	34,162,410,000

AMEX Sales

	Sales Vol.
Total for week	51,210,000
Week ago	59,720,000
Year ago	81,590,000
Jan 1 to date	2,345,630,000
1987 to date	3,323,270,000

NYSE Diaries

	This Wk	Last Wk
Advanced	1144	
Declined	716	
Unchanged	307	
Total Issues	2167	
New Highs	96	
New Lows	60	

AMEX Diaries

	This Wk	Last Wk
Advanced	424	
Declined	412	
Unchanged	214	
Total Issues	1050	
New Highs	44	
New Lows	69	

MONDAY SPORTS

SIDELINES

IOC Tested the Drug Testers in Seoul

SEOUL (WP) — During the Seoul Olympics, several urine samples examined at the doping-control center contained massive amounts of steroids and stimulants, but no disciplinary action was taken, according to the director of the doping-control center.

Park Jong Sei, the director, said he was shocked. In an interview, Park said that after the Games he asked officials from the International Olympic Committee about the lack of action in these cases of apparently flagrant use of banned substances. He was floored by the response: the IOC planted the tainted samples to test whether the doping-control center was doing its job. Quality control, the IOC explained.

"I was mad," Park said. "When you are tested, you are not too happy."

Yankees Sell Cable Television Rights

NEW YORK (AP) — The New York Yankees became the first major league baseball team to sell all of their television rights to a cable network after announcing a 12-year deal with the Madison Square Garden Network.

The MSG Network will show 75 games in each of the 1989 and 1990 seasons. WPIX-TV, which has carried Yankees games for 38 years, will broadcast 75 games each of those two years under an existing contract. Beginning in 1991 and through the 2000 season, MSG has exclusive rights to 150 games a season.

The value of the package was not announced, but a source familiar with the deal said it was worth about $500 million.

Romanians Upset Wales in Rugby

CARDIFF, Wales (Reuters) — Romania upset Wales in rugby Saturday, 15-9. It was Romania's first test victory away from home against a major rugby country, and a further shock to Welsh fans after overwhelming Welsh defeats by New Zealand last May and June.

Each team scored and converted a try. Gelu Ignat made the difference with three penalty goals, against one by Paul Thorburn. The victory confirmed a Romanian revival signaled two weeks before when France had to struggle to win in Bucharest, 16-12.

Drug Remark Irks Griffith Joyner

LOS ANGELES (Reuters) — Olympic gold medalist Florence Griffith Joyner is considering legal action against a fellow American track star, Carl Lewis, for suggesting that she took performance-enhancing drugs, her manager says.

"Florence is not a vengeful type of individual," Gordon Baskin said. "But this has passed the threshold of no response."

Baskin said Griffith Joyner's lawyers had asked Lewis to come forward with evidence supporting the allegations. Lewis reportedly told a group of college students last week that he knew of Griffith Joyner's drug use from "some very reliable sources."

For the Record

The National Hockey League Board of Governors has approved a change of ownership of the Quebec Nordiques from the Carling-O'Keefe brewery to a group headed by Marcel Aubut, who has been managing director of the Nordiques. *(AP)*

Western Michigan quarterback Tony Kimbrough blamed himself for a fumbled snap that cost the Broncos the ball and perhaps the game in a 35-30 loss to Fresno State in Saturday's California Bowl football game. *(AP)*

Quotable

• John McEnroe, on grass tennis courts at Wimbledon: "It's a disgrace we should have courts at our top event of the year where you can't get two bounces the same... Grass has become outdated. Unfortunately it's a thing of the past." *(Reuters)*

Nothing Free in Baseball's Free Agency

By Murray Chass
New York Times Service

NEW YORK — As Yogi Berra might have said, it's déjà vu again.

It is 1979 in 1988. The names are different, but the idea is the same: clubs going money-mad for free agents with deteriorated or unproven talent.

Free agency has made a comeback, showing signs of expenditures, if not length of contracts, that existed in the days before the owners conspired to keep free-agent salaries down.

In one sense, activity in this year's free-agent market has been reminiscent of a time when owners seemingly lavished a lucrative financial package on any free agent who could walk.

In 1979, for example, the fourth year of free agency, the Los Angeles Dodgers, bidding against themselves, give Dave Goltz $3 million for six years. Then they signed Don Stanhouse for five years and $2.1 million.

Today's newsreel holds the following:

• George Steinbrenner and the New York Yankees force Andy Hawkins to take $3.6 million for three years after no one else had offered more than $2 million.

• Henry Peters and the Cleveland Indians donate $1,675,000 over two years to Jesse Orosco.

• George Argyros and the Seattle Mariners gives $1.75 million for two years each to Tom Niedenfuer and Jeffrey Leonard.

Gene Autry, who is dying to have his California Angels win a pennant, tried diligently to spend mammoth amounts of his money. But he failed to induce Nolan Ryan and Bruce Hurst to take $8.8 million.

Eddie Chiles and the Texas Rangers won the Ryan chase, and Joan Kroc and the San Diego Padres finished first in the Hurst pursuit.

"If what happened in 1985 and '86 didn't make any sense, then what's happening in 1988 makes less sense to me," said Barry Rona, the owners' chief labor executive.

"I think we're talking average players — in some cases some very average players — and we're paying them as though they are stars. If you overpay for a quality player, so what? To overpay dramatically for a mediocre player, where you could wind up with nothing, that's dangerous."

Rona believes that clubs follow the trend that is created. One spends and the others follow.

"The marketplace has been absolutely crazy, but it's our own fault," said Lou Gorman, general manager of the Boston Red Sox. "But when the marketplace is like that, you have to deal in the marketplace."

Most likely, it was the Los Angeles Dodgers' signing of Kirk Gibson in January that triggered the renewed competition. The Dodgers lured Gibson from Detroit with a three-year, $4.5 million offer. If the Dodgers could do that, other clubs figured, why shouldn't they?

■ Randolph to the Dodgers

Seventeen days after Dodger Steve Sax signed as a free agent with the New York Yankees, the two teams completed what essentially became a swap of second basemen on Saturday as Los Angeles signed Willie Randolph to a two-year guaranteed contract, the Los Angeles times reported.

Terms of the deal were undisclosed, but Randolph — who was paid $875,000 by the Yankees last season — signed for a total of about $1.775 million, a source said.

Elsewhere on the second-base maneuver list, Wally Backman of the New York Mets said he wanted to be an "everyday player" in explaining his desire to leave New York, The New York Times reported. Backman was traded last week to the Minnesota Twins.

Backman, 29, had lost his job to Tim Teufel last spring, regained it by hitting .303 this year but still found himself crowded by rookies Keith Miller and Greff Jeffries.

Center Rony Seikaly, as loss No. 16 became inevitable.

In Miami, the Heat's Hit a Record Zeroes

Compiled by Our Staff From Dispatches

MIAMI — When the Miami Heat played its first home game last month, Bill Kenchon brought along champagne and a cake in anticipation of the new National Basketball Association team's first victory.

Kenchon, president of the 627-member Miami Heat Fan Club, is still ordering cakes for home games. "We're waiting for that first win," he said. "The champagne will keep, but those cakes get stale."

The Heat may be a boon for local bakeries, but Saturday night the team broke the NBA record for most losses at the start of a season.

In losing its 16th game, by 111-88 to the Chicago Bulls, it surpassed the 1949-50 Denver Nuggets, the 1970-71 expansion Cleveland Cavaliers and the 1972-73 Philadelphia 76ers.

"The pressure is off," said the Heat's coach, Ron Rothstein. "I'm not embarrassed. It's not easy. You want to be competitive. You want to win. But you've got to be realistic. We've got a young team."

After equalling the record Friday with a loss to Denver, Rothstein had said: "I ain't slitting my throat. We'll be good. We'll get there."

This was not the sort of national attention Miami's civic leaders had in mind when the city was granted an NBA franchise in April 1987.

Zev Bufman, a theatrical producer who is one of the Heat's co-owners, said, "I thought it was time south Florida had a basketball team. Besides, I got tired of watching basketball on TV or having to go to L.A. or New York to see a game."

"Some people expected crowds to be raunchy, beer-drinking jocks," said Mayor Xavier Suarez, who said he is a big basketball fan.

"It's as much a social event as a sports event," he added.

And a good thing, too, considering the Heat's record.

(NYT, AP, Reuters)

Tomba Wins Slalom, With Girardelli 2d

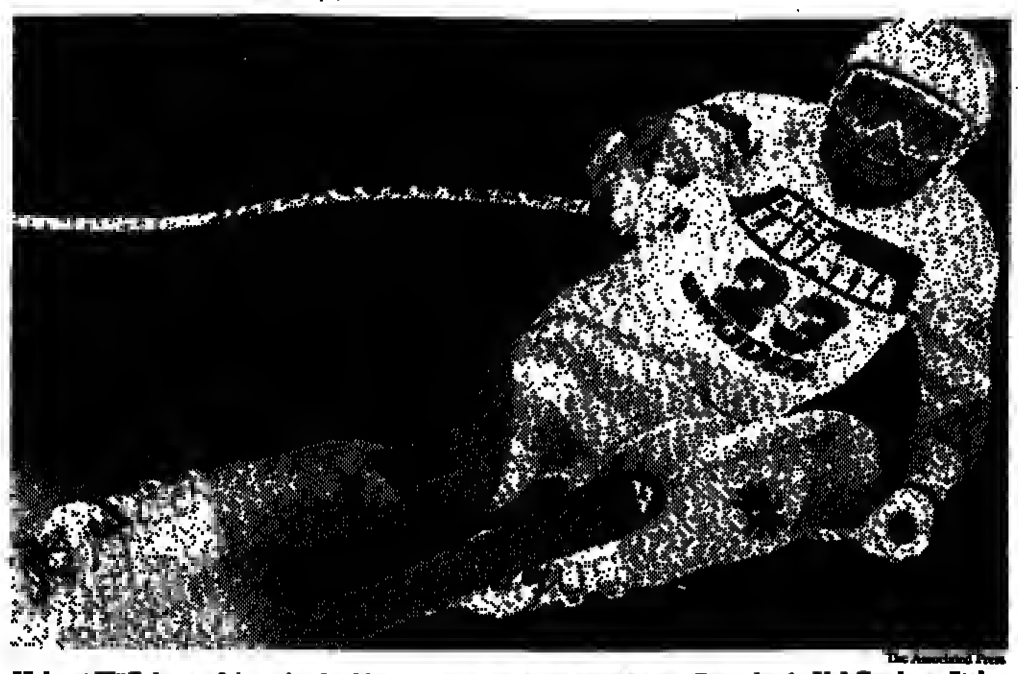
Compiled by Our Staff From Dispatches

MADONNA DI CAMPIGLIO, Italy — Alberto Tomba, before a crowd of 40,000 cheering Italians, won his first slalom of the World Cup skiing season on Sunday.

Tomba, who will be 22 next week, won here for the second straight year and made up for the disappointment of skiing into a post and failing to finish the season's opening slalom last week in Sestriere, Italy.

He made the fastest first run, in 50.14 seconds, then sped down the second time in 51.05. Marc Girardelli of Luxembourg, the winner in Sestriere who Friday had walked out in protest of the draw for the downhill races at Val Gardena, Italy, finished second with a combined time of 1:42.10. Girardelli was eighth after a first run of 50.82.

The erratic early season of Pirmin Zurbriggen of Switzerland continued as, to loud jeering from the crowd, he again failed to qualify for the second run. But he did retain the lead in the World Cup overall standings, ahead of Girardelli.



The Associated Press

Helmut Höflehner of Austria, the 23d to start, won the downhill race Saturday in Val Gardena, Italy.

Saturday, at Val Gardena, Helmut Höflehner and fellow Austrian Patrick Ortlieb finished 1-2 in the season's second downhill race for men as the late starters upset the first-group favorites.

Höflehner, 23d out of the gate, skied the 3.4-kilometer (3,718-yard) Sasslonch course in 2:02.67 for Austria's first downhill victory since Anton Steiner won in 1986.

Ortlieb, who wore No. 30, was timed in 2:02.75, with Swiss veteran Peter Müller third in 2:03.02. Müller, who had won Friday's downhill, teammate Karl Alpiger and Italy's Michail Mair were the only skiers from the first group to finish among the top 10 as the rapidly changing weather and track benefited those who started later.

Höflehner's winning time was 2.16 seconds slower than Müller's on Friday, over the same distance.

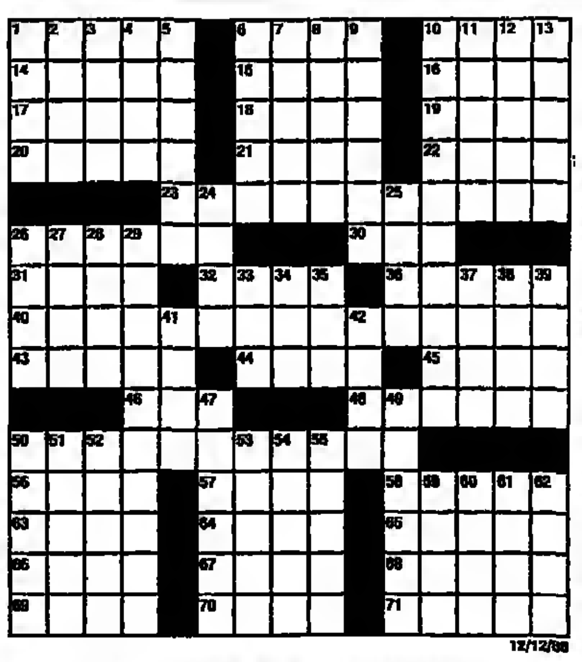
Zurbriggen, who started 11th, finished 22d and failed to pick up any points. *(AFP, AP)*

ACROSS

1 Look fixedly
6 High mountains
10 Part of Q.E.D.
14 Brother of Moses
15 Scarce
16 Jay ——, Carson's substitute host
17 Faint light
18 Leave out
19 Landed
20 Frighten
21 Short note
22 Allen or Nahum of poetic fame
23 Prairie flower
26 Greek oracle site
30 Nourished
31 Fortuneteller's phrase
32 Transportation price
36 Poker stakes
40 Magis' guide
43 Saw cuts
44 Fencing sword
45 Part of a shoe
46 Bullfight shout
48 Maltreat
50 Symbol of Judaism
56 Operatic song
57 Golfer's warning call
58 Organic compound
63 Final
64 Units
65 Animated
66 Tessera
67 Budget item
68 Covers the inner surface
69 Kane's "Rosebud"
70 Socials
71 Begin

DOWN

1 Droops
2 Mineral powder
3 Scope
4 Shout
5 Catch in a net
6 Fragrance
7 Debussy opus
8 Heavyweight champ Camera: 1933
9 Place aside
10 Jubilance
11 Reduce tension
12 Author Loos
13 Carries
24 Quarrel
25 Greenish blue
26 Circular plate
27 Italian noble family
28 Cordelia's father
29 Pierced
33 "Honest" President
34 Opposite of Dem.
35 Hot time in Paris
37 "Bird —— never wert": Shelley
38 Lampreys
39 Pintail duck
41 Capital of Norway
42 Half: Prefix
47 Exertion
49 Perfection concepts
50 Veteran seamen
51 Oregon or Santa Fe
52 Passageway
53 Gift recipient
54 Sports place
55 Waistcoats
59 Narrow opening
60 Turner or Louise
61 Always
62 Repose



12/12/88

© *New York Times, edited by Eugene Maleska.*

Solution to Friday's Puzzle

COLA PEAS OBESE
AMEN LAIN RUTHS
BIAS ARLO STROP
THETYPEWRITER
LAO SANI
YDS INAT NONCOM
OUTON WAAC GONE
KEEPEROFTHEKEYS
UNIE ALTA NYLON
MAGNUM STLO SUE
ENID ALS
CONCERTGRANDS
MAGDA IRIS ERTE
SLEEP VINE LAIR
SLEDS EGON LYRA

WEATHER

EUROPE

	HIGH C	HIGH F	LOW C	LOW F	
Algarve	16	61	4	39	fr
Amsterdam	11	52	9	48	o
Athens	11	52	9	48	o
Barcelona	15	59	8	46	fr
Belgrade	4	39	0	32	fo
Berlin	9	48	8	46	r
Brussels	10	50	8	46	o
Budapest	11	52	2	36	cl
Copenhagen	8	46	6	43	r
Costa Del Sol	17	63	5	41	fr
Dublin	11	52	9	48	r
Edinburgh	11	52	8	46	o
Florence	13	55	-1	30	cl
Frankfurt	11	52	9	48	o
Geneva	6	43	2	36	o
Helsinki	-11	12	-5	23	sw
Las Palmas	22	72	14	57	cl
Lisbon	13	55	7	45	fr
London	11	52	8	46	o
Luxembourg	8	46	6	43	o
Madrid	14	57	-1	30	fr
Milan	9	48	-1	30	fr
Moscow	-4	25	-8	18	sw
Munich	8	46	5	41	o
Nice	18	64	7	45	fr
Oslo	-1	34	-7	19	o
Paris	11	52	10	50	o
Prague	8	46	—	—	cl
Reykjavik	5	41	1	34	o
Rome	16	61	2	36	fr
Stockholm	0	32	-3	26	fr
Strasbourg	9	48	7	45	r
Venice	8	46	-1	30	cl
Vienna	11	52	5	41	o
Warsaw	5	41	-4	25	o
Zurich	8	46	4	39	o

OCEANIA

	HIGH C	HIGH F	LOW C	LOW F	
Auckland	22	72	14	57	fr
Sydney	26	79	19	66	cl

ASIA

	HIGH C	HIGH F	LOW C	LOW F	
Bangkok	28	82	20	68	cl
Beijing	7	45	-2	28	cl
Hong Kong	20	68	13	55	fr
Manila	30	86	25	77	o
New Delhi	23	73	9	48	cl
Seoul	4	39	-3	26	sw
Shanghai	12	54	0	32	fr
Singapore	30	86	23	75	o
Taipei	18	64	13	55	fr
Tokyo	13	55	3	38	fr

AFRICA

	HIGH C	HIGH F	LOW C	LOW F	
Algiers	16	61	11	52	fr
Cape Town	20	68	9	48	fr
Casablanca	18	64	7	45	fr
Harare	23	73	14	57	fr
Lagos	30	86	25	77	o
Nairobi	25	77	15	59	cl
Tunis	17	63	5	41	cl

LATIN AMERICA

	HIGH C	HIGH F	LOW C	LOW F	
Buenos Aires	28	82	22	72	st
Caracas	—	—	—	—	na
Lima	25	77	18	64	cl
Mexico City	25	77	6	43	fr
Rio de Janeiro	26	79	22	72	fr

NORTH AMERICA

	HIGH C	HIGH F	LOW C	LOW F	
Anchorage	-1	30	-8	18	sh
Atlanta	3	38	-1	30	r
Boston	-6	21	-13	9	fr
Chicago	-19	-2	-12	10	fr
Denver	3	38	-8	18	pc
Detroit	-7	19	-16	3	pc
Honolulu	31	88	20	68	pc
Houston	9	48	3	38	cl
Los Angeles	24	75	9	48	fr
Miami	28	82	20	68	fr
Minneapolis	-12	10	-16	3	pc
Montreal	-18	0	-20	-4	pc
Nassau	27	81	19	66	pc
New York	-3	26	-10	14	fr
San Francisco	18	64	7	45	fr
Seattle	11	52	7	45	cl
Toronto	-10	14	-18	0	pc
Washington	-1	30	-10	14	fr

MIDDLE EAST

	HIGH C	HIGH F	LOW C	LOW F	
Ankara	6	43	4	39	r
Beirut	—	—	—	—	na
Cairo	19	66	—	—	fr
Damascus	—	—	5	41	cl
Istanbul	8	46	4	39	r
Jerusalem	17	63	8	46	cl
Tel Aviv	21	70	9	48	cl

cl-cloudy; fo-foggy; fr-fair; h-hail; o-overcast; pc-partly cloudy; r-rain; sh-showers; sw-snow; st-stormy.

MONDAY'S FORECAST — CHANNEL: Slight. FRANKFURT: Showers. Temp. 8—6 (46—43). LONDON: Showers. Temp. 9—6 (48—43). MADRID: Fair. Temp. 14—-1 (57—30). NEW YORK: Fair. Temp. -4—-8 (25—18). PARIS: Overcast. Temp. 9—8 (48—46). ROME: Fair. Temp. 15—1 (59—30). TEL AVIV: Not Available. ZURICH: Rain. Temp. 8—5 (46—41). BANGKOK: Mist. Temp. 33—19 (91—66). HONG KONG: Fair. Temp. 19—13 (66—55). MANILA: Showers. Temp. 30—24 (86—75). SEOUL: Snow. Temp. 4—-4 (39—25). SINGAPORE: Showers. Temp. 30—24 (86—75). TOKYO: Fair. Temp. 13—3 (55—38).

DENNIS THE MENACE

"YEAH, MY DAD THINKS HE'S SANTA CLAUS, TOO!"

JUMBLE THAT SCRAMBLED WORD GAME by Henri Arnold and Bob Lee

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

PAUNC

ARCTT

GIRDIF

DOINIE

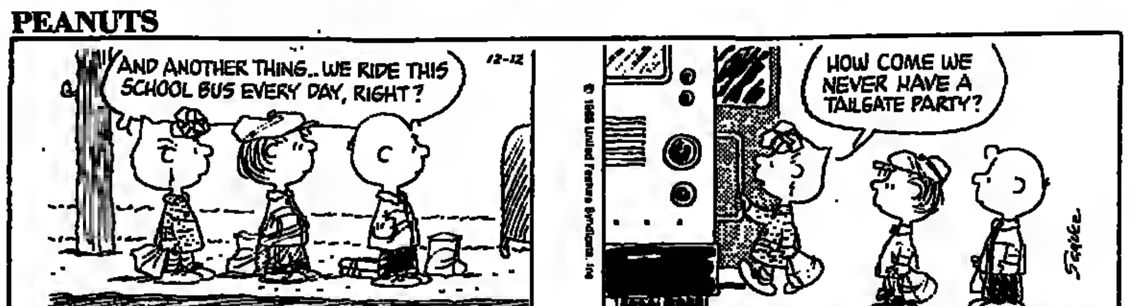
Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Print answer here: AN

(Answers tomorrow)

Saturday's Jumbles: AGILE GRAVE BREACH FENNEL
Answer: What a brand-new father is about to enter into—A CHANGING WORLD

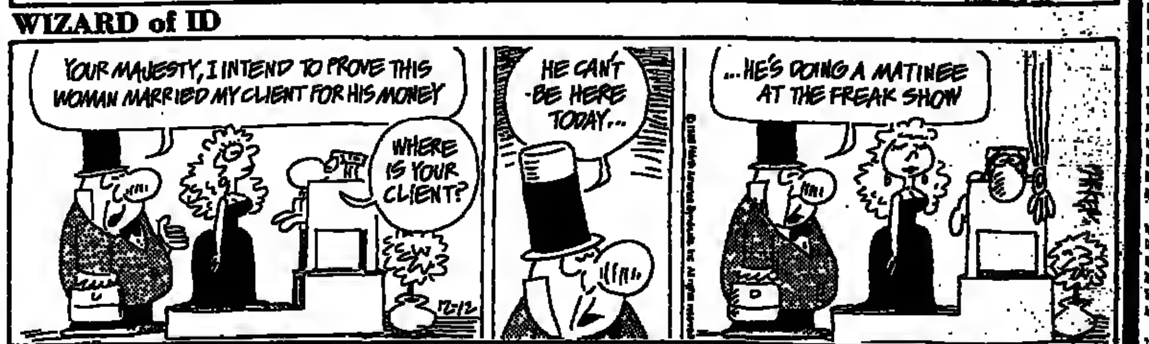
PEANUTS



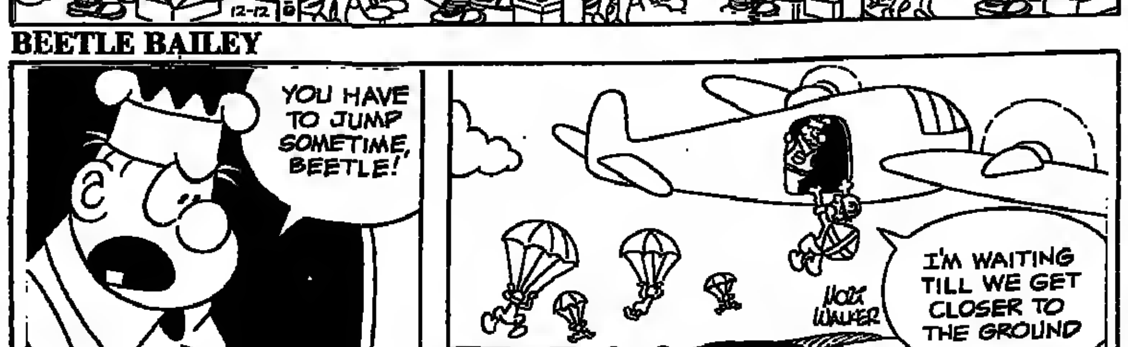
ANDY CAPP

BLONDIE

WIZARD of ID



BEETLE BAILEY



REX MORGAN

DOONESBURY

GARFIELD

A Great 'Ali' Impersonation

Calls to Senators and the Press Sought to Help Lawyer

The Associated Press

ATLANTA — A person identifying himself as Muhammad Ali has made hundreds of phone calls to politicians and journalists seeking help on three projects, one potentially worth millions of dollars to the former world heavyweight boxing champion, according to a newspaper report.

UPI

Muhammad Ali denied calling.

Ali, in a face-to-face interview, told The Atlanta Journal-Constitution he did not make the calls and had no idea who did, the newspaper reported Sunday. "Why would a Black Muslim mess with politicians?" Ali said. "I don't care."

Many of the calls to journalists, the newspaper said, were arranged by Ali's attorney, Richard M. Hirschfeld of Charlottesville, Virginia. (One resulted in a story, written by The Washington Post, that ran in the International Herald Tribune on June 10.) The Journal-Constitution quoted business associates of Ali and Hirschfeld as saying the lawyer does a convincing impersonation of the former champion.

The newspaper said its attorneys had sent a list of questions to Hirschfeld, including one asking whether he had ever impersonated Ali's voice to a third party.

Hirschfeld, in a letter, did not answer the questions, but instead said that Ali denied making the statements the newspaper attributed to him, including the one denying that he knew anything about the calls, the paper said.

It reported that "the Ali voice" this year had called at least six U.S. senators, two Senate administrative assistants, 10 press secretaries, nine journalists, 14 senatorial aides, then-Attorney General Edwin Meese 3d and Arthur B. Culvahouse Jr., counsel to President Ronald Reagan.

It said that the caller, in talking to the powerful in Washington, had pushed these projects:

- An assistant attorney general's job for a University of Virginia law professor, Stephen Saltzburg, who is a friend and occasional legal associate of Hirschfeld.
- A Justice Department investigation of a federal prosecutor in Norfolk, Virginia, who had completed a case against a former Hirschfeld business associate and was investigating Hirschfeld.
- A bill in Congress that would allow Ali to again sue for $50 million in damages from his wrongful conviction in 1967 of draft evasion. Hirschfeld was an attorney in the first lawsuit, in 1984, which lost. The first draft of the legislation, which failed last September, was written by Saltzburg at Hirschfeld's request, according to Senator Orrin Hatch, the Republican of Utah, who proposed the bill.

In conversations with senators and journalists, the person calling was "witty, articulate and intelligent," knowledgeable and politically savvy on subjects as diverse as foreign policy and public housing, the Atlanta paper reported.

But Ali, 46, has been diagnosed as having suffered Parkinson syndrome as a result of his many years in the ring. In public appearances in recent years, he has spoken hesitatingly, often in a slurred whisper.

Ali, accompanied by Hirschfeld, has made a number of personal appearances in Washington this year, visiting the offices of five senators who had spoken with "the Ali telephone imposter," the newspaper reported. During these visits, Ali shook hands, signed autographs and made small talk, mostly in whispered phrases, the paper said.

The Page 1 story in The Washington Post was based on "a rare telephone interview" that detailed Ali's stands on politicians from Strom Thurmond and Jesse Jackson to Mikhail Gorbachev.

[The Post said Sunday that, on June 7, at a Capitol Hill news conference announcing Saltzburg's appointment as deputy assistant attorney general in the Justice Department's criminal division, Hirschfeld told a Post reporter that she would be allowed to interview Ali, but that the interview could not take place then.

[That evening, the Post said, Hirschfeld called the reporter at home and said that Ali would be calling. Shortly afterward, a man identifying himself as Ali did call.

[The following day, the Post said, Hirschfeld assured the reporter and an editor that it was Ali who had given the interview. Hirschfeld said he would call from Chicago if there were further questions. Later that day, a man identifying himself as Ali called the Post editor and talked for about 20 minutes.]

The Atlanta report also quoted several Ali associates as saying they doubted whether the former champion could expound at length on the issues of the day.

"Ali is a simple man," said his former fight doctor, Ferdie Pacheco. "If you accept him as naive, it doesn't take anything for unscrupulous people to talk their way into him, to use him as a front and use his name."

Pacheco added: "Politics? Foreign policy? He knows about foreign policy?"

Americans Capture Masters Doubles

Reuters

LONDON — Rick Leach and Jim Pugh of the United States capped their year as the richest pair in tennis by winning the Masters doubles title on Sunday against Spain's Sergio Casal and Emilio Sanchez.

Leach and Pugh, denied the chance to meet the Spaniards in the U.S. Open final, gave a taste of how things might have been in New York with a 6-4, 6-3, 2-6, 6-0 victory.

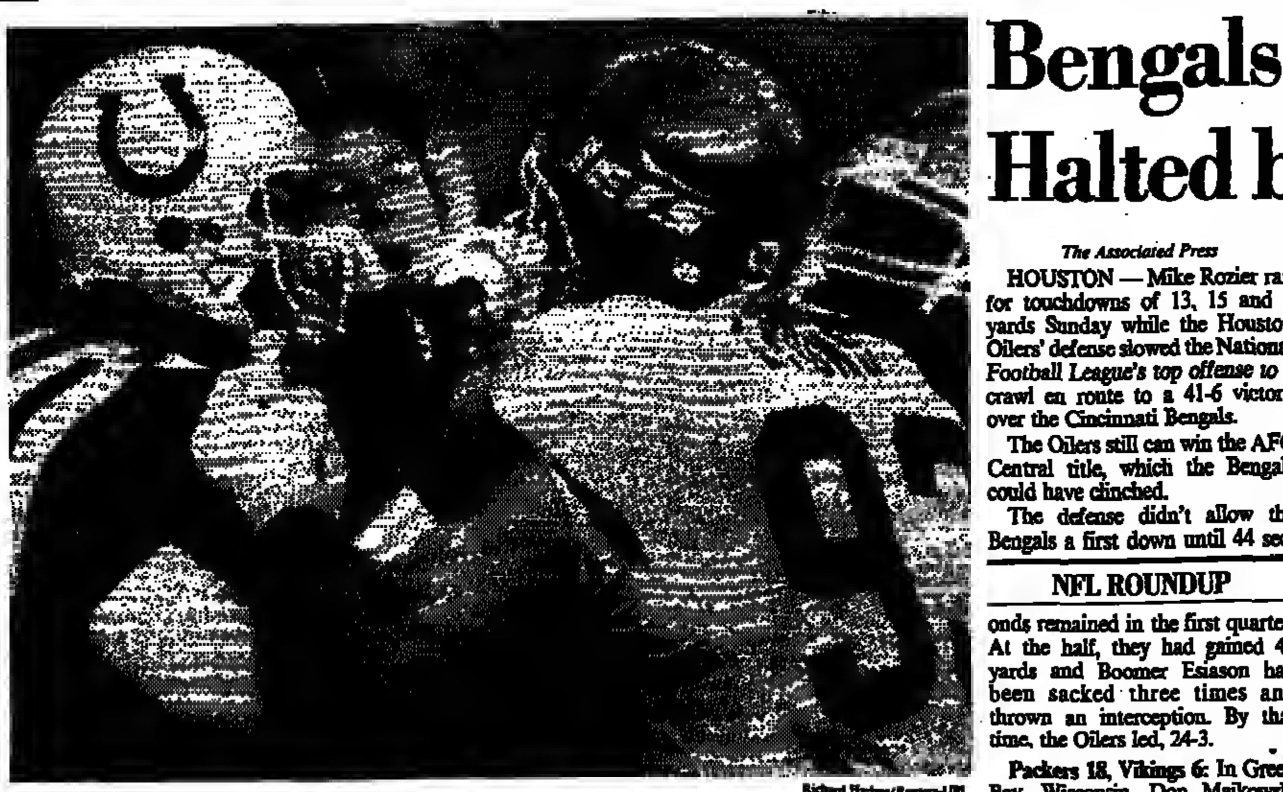
The two teams were due to meet in the Open final, but when Leach, 23, contracted food poisoning, the Spanish pair was awarded the victory. The Masters' victory gave the Americans a jackpot of more than $350,000 between them in winnings.

Casal and Sanchez, who had looked almost invincible against Swede Anders Jarryd and Australian John Fitzgerald in the semifinals, came to life in the last game when they saved four match points before tangling rackets as they went for the winner from Pugh.

■ Czech Women Win Cup

Radka Zrubakova and Helena Sukova scored straight-set victories Sunday to lift Czechoslovakia to victory over the top-seeded Soviet Union in the final of the Federation Cup in Melbourne, The Associated Press reported.

Czechoslovakia, seeded fourth, won the Cup for the fourth time in six years.



Richard Harbus/Reuters-UPI

Gary Hogeboom, the Colts' quarterback, encountered an aggressive Marty Lyons of the Jets.

Ferry Scores a Duke Record 58 in Miami

The Associated Press

MIAMI — Danny Ferry, with 58 points, broke Duke's 38-year-old scoring record Saturday night, and said it wasn't very difficult.

"I got a lot of easy shots," Ferry said after making 23 of 26 shots

COLLEGE BASKETBALL

and 10 of 12 free throws during the top-ranked Blue Devils' 117-102 victory over the University of Miami.

"Our post screens inside got me really free. The guys on the perimeter got me the ball where all I had to do was turn and shoot. With such easy shots, I should be successful."

The 6-foot, 10-inch (2-meter) senior broke the school record of 48 points set by Dick Groat against North Carolina in 1952.

It also was the most points ever scored by a player for an Atlantic Coast Conference team, breaking the mark of 57 set by North Carolina State's David Thompson against Buffalo State in 1974.

"That was one of the most phenomenal performances I've ever seen," said Miami's coach, Bill Foster. "If he has an average night, we have a chance at winning."

Dennis Burns scored 24 points for Miami, 3-2. Ferry also had seven assists for Duke, 6-0.

He tied Groat's record when he made a half-hook in the lane with 9:10 left. An eight-foot shot 37 seconds later broke the record and gave Duke a 93-74 lead, its largest.

"Danny was brilliant," said his coach, Mike Krzyzewski. "His teammates and coaches realized that and looked to him. The other brilliant people were the Miami basketball team. We didn't play badly; they played great."

Ferry made 15 of 17 shots in the first half for 34 points, one more than his previous collegiate high. He got 15 straight Duke points in one 2½-minute span of that half.

Michigan 107, Western Michigan 60: In Kalamazoo, Michigan, Glen Rice scored 28 points, 11 during a second-half spurt, as the Wolverines (8-0), ranked No. 2 in The Associated Press poll, reached 100 points for the fourth time in their last five games.

Syracuse 108, Kentucky State 73: In Syracuse, New York, Derrick Coleman got 23 points, matched his career high with 19 rebounds and blocked eight shots while Sherman Douglas scored 29 points as the No. 3 Orange (8-0) won its 25th straight non-conference home game.

Georgetown 114, Shenandoah 40: In Landover, Maryland, Charles Smith scored 25 points and the No. 4 Hoyas (4-0) allowed only eight points in the second half; they have won by an average of 46 points a game, although they have not yet played a Division I team.

Iowa 91, Iowa State 71: In Iowa City, Iowa, B.J. Armstrong's 24 points and Roy Marble's 23 helped the No. 5 Hawkeyes (6-0) win easily.

Oklahoma 152, Oral Roberts 122: In Norman, Oklahoma, the No. 6 Sooners (5-1), with Stacey King and Mookie Blaylock each scoring 28 points, tied the school record for points and, with 87 in the second half, broke the NCAA's Division 1 mark for a half, the 86 scored by Jacksonville against St. Peter's in 1970 and tied by Lamar against Portland State in 1980. Oklahoma's coach, Billy Tubbs, coached that Lamar team.

Illinois 107, Arkansas-Little Rock 88: In Champaign, Illinois, the No. 7 Illini (6-0) broke a tie at 24 with a 19-4 run, their James Scott scoring 27 points for the game.

North Carolina 76, Richmond 68: In Chapel Hill, North Carolina, Steve Bucknall made three straight three-point shots in a 2½-minute stretch of the second half to rally the No. 8 Tar Heels (8-1).

Arizona 86, Nevada-Las Vegas 75: In Tucson, Arizona, Sean Elliott scored 20 of his 32 points in the last half and had 15 rebounds and seven assists for the No. 10 Wildcats (3-1) as they pulled away from the No. 9 Runnin' Rebels (2-2) with a 15-5 burst after intermission.

Missouri 86, Memphis State 74: In Columbia, Missouri, Byron Irvin got 19 of his 21 points in the second half for the No. 11 Tigers (7-2) and went over the 1,000-point mark for his career.

Georgia Tech 101, Baptist College 66: In Atlanta, the No. 12 Yellow Jackets (4-0) led by 11-0 before a 22-3 run ensured victory.

Ohio State 84, Lafayette 62: In Columbus, Ohio, Jay Burson scored 15 of his 21 points in the first half, which the No. 14 Buckeyes (4-1) ended with an 11-0 burst.

Louisville 95, Dayton 68: In Louisville, Kentucky, Pervis Ellison was 8-for-8 in the first half, finishing with 21 points, as the No. 15 Cardinals (4-2) won their fourth straight.

California 73, Villanova 71: In Berkeley, California, Keith Smith made a 12-foot baseline jumper with nine seconds to play and Rodney Taylor of the No. 17 Wildcats (4-3) failed to get off his desperation jumper until after the buzzer. The Golden Bears (6-2), with Mark West scoring 30 points, won their fifth straight, and a second straight against a top-20 team.

Connecticut 68, Virginia 61: In Charlottesville, Virginia, Cliff Robinson got 31 points for the No. 18 Huskies (4-1), who scored the game's final nine points against the Cavaliers (5-1).

Seton Hall 74, St. Johns' 63: In New York, John Morton scored 17 points as the No. 20 Pirates (7-0) won at St. John's (5-1) for the first time since 1913.

Kansas 95, Temple 78: In Atlantic City, the loss gave the Owls (0-3), 32-2 last season, their worst start since 1913 although Mark Macon scored 30 points. Kansas (6-1) got 26 from Kevin Pritchard.

Bengals, Vikings Halted by Upsets

The Associated Press

HOUSTON — Mike Rozier ran for touchdowns of 13, 15 and 3 yards Sunday while the Houston Oilers' defense slowed the National Football League's top offense to a crawl en route to a 41-6 victory over the Cincinnati Bengals.

The Oilers still can win the AFC Central title, which the Bengals could have clinched.

The defense didn't allow the Bengals a first down until 44 sec-

NFL ROUNDUP

onds remained in the first quarter. At the half, they had gained 44 yards and Boomer Esiason had been sacked three times and thrown an interception. By that time, the Oilers led, 24-3.

Packers 18, Vikings 6: In Green Bay, Wisconsin, Don Majkowski threw an 11-yard touchdown pass to Patrick Scott while the defense put Minnesota's playoff hopes on hold and ended its chance of winning the NFC Central Division title.

The Packers ended a seven-game losing streak by beating the Vikings a second time this season. The Vikings had a five-game winning streak ended and must play Chicago next week with a playoff berth on the line.

Bears 13, Lions 12: In Chicago, Kevin Butler kicked a 32-yard field goal with four seconds left as the Bears clinched their fifth straight NFC Central title by beating Detroit in another cold, windy game.

Jim Harbaugh threw a 17-yard pass to Dennis McKinnon and an 11-yard pass to James Thornton to help move his team from its 30, with five minutes left, to inside the Detroit 15. That set up Butler's second field goal of the game.

On the previous series, the Lions had gone 80 yards, with Garry James diving over from the one to put his team ahead by 12-10. But Al Harris blocked Ed Murray's extra point kick, which turned out to be the margin of victory.

Giants 28, Chiefs 12: In East Rutherford, New Jersey, Phil Simms rediscovered Mark Bavaro for two touchdowns, then Ottis Anderson and Maurice Carthon scored in the fourth quarter as New York inched closer to its second NFC East title in three years by beating Kansas City.

Bavaro had caught just 14 passes in the last seven weeks and had only two touchdowns this season. But Simms twice found the Pro Bowl tight end in a seam of a zone defense for touchdowns, the first covering 12 yards in the first quarter and the second 24 yards in the third quarter.

Bills 37, Raiders 21: In Orchard Park, New York, Robb Riddick scored on two short touchdown runs as Buffalo rediscovered a running game and ended a two-game losing streak by beating Los Angeles.

The AFC East champions, who rushed for only 149 yards in their last two games, gained 255 against the Raiders. Rookie Thurman Thomas led the way with 106 yards and a touchdown in 14 carries.

Patriots 10, Buccaneers 7: In Foxboro, Massachusetts, Jason Staurovsky kicked a 27-yard field goal 3:08 into overtime as New England, sparked by the return of quarterback Tony Eason, improved its playoff chances.

The Bucs, trailing by 7-0 on Robert Perryman's six-yard touchdown run with 7:24 gone in the third quarter, tied on Vinny Testaverde's 15-yard pass to Mark Carrier with 2:09 left in the fourth quarter.

They won the overtime coin toss and chose to kick off with a stiff, cold wind at their backs. But Sammy Martin's 34-yard return gave the Patriots the ball at their 35-yard line and Eason, who started and played for the first time in 23 games, passed 21 yards to Irving Fryar and four yards to Russ Francis, then found Fryar for 26 yards and a first down at the Bucs' 14.

The Patriots had been the only NFL team that hadn't won in overtime, losing 11 times.

Cowboys 24, Redskins 17: In Washington, Steve Pelluer threw three touchdown passes to rookie Michael Irvin, the last with 4:50 to play, as Dallas ended a 10-game losing streak and eliminated the Redskins from playoff contention.

Irvin had only two touchdowns in his previous 14 games. His third Sunday came four plays after Robert Williams intercepted Mark Rypien's pass and returned it 12 yards to the Redskins' 24.

Eagles 23, Cardinals 17: In Tempe, Arizona, Randall Cunningham, Keith Byars and Cris Carter scored first-quarter touchdowns as Philadelphia took a 21-0 lead Saturday and eliminated error-prone Phoenix from playoff contention.

Izel Jenkins blocked Greg Horne's punt out of the end zone for a safety with 10:58 left to pad Philadelphia's lead to six points. Then a high center snap stopped the Eagles on a 29-yard field goal try and the Cardinals got the ball at their 20 with 3:39 left. They drove to Philadelphia's 13, but Neil Lomax threw three straight incompletions and the Eagles took over.

Jets 34, Colts 16: In East Rutherford, New Jersey, Jo Jo Townsell broke a 59-yard punt return for a 10-0 first-quarter lead and Al Toon, the NFL reception leader, broke his team's season record of 85 catches with seven for 103 yards as New York beat Indianapolis.

The Colts, winners of the AFC East last season, were nearly eliminated from the playoffs. They had been 5-0 in December under the coaching of Ron Meyer, while the Jets hadn't won a December game since 1985.

Toon, an all-pro, has 89 receptions for 1,011 yards this year.

WORLD CUP VICTOR — Ben Crenshaw narrowly missed a birdie putt on Saturday, above, but he sank a four-foot putt on the last green Sunday to secure a one-stroke victory for the United States in World Cup competition in Melbourne. "It was the happiest putt of my life," said Crenshaw, who, with his partner, Mark McCumber, helped the United States gain its 17th World Cup victory.

Uruguay Wins Club Soccer

Agence France-Presse

TOKYO — Nacional de Montevideo of Uruguay won the world club cup in soccer here Sunday after an epic penalty shoot-out against European Cup holders PSV Eindhoven.

The sides had finished 1-1 after 90 minutes, 2-2 after extra time and were 3-3 on penalties after the regulation five shots each. It went to 6-6, with each having taken nine shots, before Dutchman Berry van Aerle saw his shot saved by goalkeeper Jorge Fernand Sere and then Tony Cesar Gomez stepped up to crack home the winner.

It was Nacional's third world club title, following victories in 1971 and 1980, and ended Eindhoven's hopes of becoming the third Dutch team to win the championship.

The South Americans went ahead in the seventh minute when Santiago Javier Ostolaza headed home a corner shot, and PSV had to wait until the 75th minute to draw even when the Brazilian Romario, the leading scorer in the Olympic soccer tournament, scored with a header.

"Unfortunately we made some foolish mistakes," Eindhoven manager Guus Hiddink said.

SCOREBOARD

BASKETBALL

NBA Standings

EASTERN CONFERENCE

Atlantic Division

[illegible]

Central Division

[illegible]

WESTERN CONFERENCE

Midwest Division

[illegible]

Pacific Division

[illegible]

FRIDAY'S RESULTS

[illegible]

SATURDAY'S RESULTS

[illegible]

Selected College Results

FRIDAY

EAST

[illegible]

Stanford 89, San Jose St. 39
Utah 75, Utah St. 64
Wyoming 109, Ala.-Birmingham 91

TOURNAMENTS

St. Mary's, Cal. 70, Brigham Young 69

[illegible]

FOOTBALL

College Results

SATURDAY

[illegible]

SKIING

World Cup

MEN'S DOWNHILL

[illegible]

TENNIS

WOMEN'S FEDERATION CUP

(In Melbourne)

[illegible]

WORLD MASTERS DOUBLES CHAMPIONSHIP

(In London)

[illegible]

HOCKEY

NHL Standings

WALES CONFERENCE

Patrick Division

[illegible]

Adams Division

[illegible]

CAMPBELL CONFERENCE

Norris Division

[illegible]

Smythe Division

[illegible]

FRIDAY'S RESULTS

[illegible]

SATURDAY'S RESULTS

[illegible]

SOCCER

ENGLISH FIRST DIVISION

Charlton 1, Queen's Park Rangers 1
Coventry 1, Manchester United 0
Derby 0, Luton 1
Middlesbrough 3, Aston Villa 3

[illegible]

FRENCH FIRST DIVISION

[illegible]

ITALIAN FIRST DIVISION

[illegible]

SPANISH FIRST DIVISION

[illegible]

WORLD CUP QUALIFYING

[illegible]

TRANSITION

BASEBALL

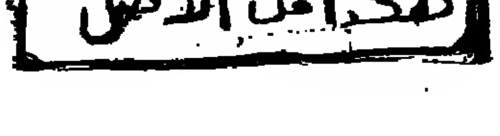
[illegible]

BASKETBALL

[illegible]

FOOTBALL

[illegible]



Robert Towne: 'Sunrise' From a Writer-Warrior

"Movies are like wars. The guy who becomes an expert is the guy who doesn't get killed."
— Robert Towne in 1980

By Desson Howe
Washington Post Service

NEW YORK — It's 1988 and Robert Towne is still alive; this after battles with Warner Bros., David Geffen, Paramount, the Screen Actors Guild, Roman Polanski and a Los Angeles manicurist who claimed — unsuccessfully — that Towne's "Shampoo" was her "Shampoo."

Robert Towne, scriptwriter, script doctor, director, producer, visionary, romantic, chronic allergy-sufferer and dog-lover, is lounging easy as you please in an Upper East Side suite, all lanky limbs and lilting voice. His new movie, "Tequila Sunrise," has just been released. It's turned out about the way he wanted. And that makes a writer-warrior very happy.

And the director, too. This is Towne's second time at the helm (the first being his 1982 "Personal Best"), and he is largely satisfied. "There were things that I wished were in it," he says. "But I felt that I had done the important thing, and that is, gotten the tone right." That it was light where I wanted it to be light and romantic where I wanted it to be romantic."

A subtle adventure for adults, featuring Mel Gibson, Michelle Pfeiffer and Kurt Russell, "Tequila" takes a nostalgic trip to Towne's old San Pedro fishing neighborhood in California, but updates it with drug deals and slick cops, fast cars and fancy restaurants. The L.A. Vice backdrop is perfect, he says, for a "parable about the use and abuse of friendship, not unrelated to a town or an industry where there's an awful lot of intermingling of friendship and business. The confusion of what you do with who you are in Hollywood is great."

Towne knows that confusion well. If friendship in Hollywood is business as usual, Bob Towne has been in the social black — and red — for 25 years. He roomed with Jack Nicholson in younger days, then wrote winners for him in "The Last Detail," "Chinatown" and its forthcoming sequel "The Two Jakes." He scripted officially for Warren Beatty in "Shampoo"

Robert Towne (at right), who directed and wrote the film "Tequila Sunrise," with one of its stars Mel Gibson.

(they shared an Oscar nomination) and unofficially for him in "Bonnie and Clyde." "McCabe and Mrs. Miller" and "Heaven Can Wait."

Uncredited again, Towne revved up "Drive, He Said" for Nicholson, planted the famous Brando-Pacino tomato patch scene in "The Godfather" for Francis Ford Coppola, put a finish on "Marathon Man" for the producer Robert Evans and a new saddle on "The Missouri Breaks" for Arthur Penn. He flew to Paris to tighten "Frantic" for Roman Polanski before returning to shoot "Tequila."

Towne seems to have sneaked between the covers of every screenplay. At least the worst is over. His most intensive script-doctoring period was between 1967 and 1973, when, ironically, he was so debilitated by "unaccountable bouts of malaise" — allergies to "damp weather, cheese and wine, and just about everything that is in our lives" — that he couldn't complete a script ("I was like a relief pitcher"). The condition, to which he's still susceptible, was diagnosed as "allergic tension fatigue syndrome," the long-term result of a huge penicillin shot he took for blood poisoning when he was 15.

Subsequent health improvement and Oscar nominations (for "Chinatown," "The Last Detail" and "Shampoo") stopped most of the spare-parts work. But they couldn't prevent some creative battles that, for Towne, have bled into the 1980s. That Los Angeles manicurist won a $185,000 award from Towne and Beatty in 1979, but lost it when they appealed the same year. A year later, Towne sued the Screen Actors Guild for recruiting the nonprofessional actors in "Personal Best" while planning the famous 1980 strike.

The case became moot when the strike ended. He also slapped "Best" executive producer, David Geffen, and Warner Bros. with a $155 million suit for fraud, coercion and defamation of character. That matter was resolved in 1983 when Towne's friend Bob Daly, who had just become Warners' chairman and chief executive, arranged a perfect compromise: "I promised not to talk to my lawyer," Towne says, "and he promised not to talk to his."

That's all out of the past now, as are the other disappointments. Towne disowned "The New Centurions" (co-written with Stirling Silliphant) when it changed direction on him, and he was forced to relinquish his beloved, meticulously researched "Greystoke: The Legend of Tarzan, Lord of the Apes" to Warner Bros. because his hands were full directing "Personal Best." Disgusted with "Greystoke's" subsequent departure from his script, Towne listed his dearly departed Hungarian sheepdog, P.H. Vazak, as the author. His dog was nominated for an Oscar.

For every friendly collaboration, it seems, there has been a tiff. "Shampoo" took six years to make, in part because Beatty sulked over Towne's first draft. And in "Chinatown," Towne fought Polanski (and Evans) bitterly over almost everything.

According to Evans, the fights were as small as Polanski's desire to change a "No Trespassing" sign to "No *Trepassing*," for a visual Polish joke, and as large as changing the film's conclusion. Towne's original had John Huston's character dying instead of Faye Dunaway's. They fought long and hard. Faye died in the end, slumped on her car horn.

"Roman and I had a lot of friction at that time," Towne says. "I'm naturally more romantic than Roman."

"The Two Jakes," Hollywood's most famous unmade movie, was derailed when Towne (as director) decided Evans wasn't right for the off-lead role opposite Nicholson. When the problem became a three-way face-off, Paramount pulled the rug out.

"Lawyers in our industry invariably break more deals than they make, and the artist is the one who suffers," says Evans. "Jack, Robert and I had sat around the table and said, 'No lawyers are going to screw up this movie.' And they did just that."

"You don't have to look too far to get corroboration," says Towne, citing a reference in "Tequila" to "a lightweight conversation with a [expletive] Century City lawyer." "In lieu of anything else I'd say, I'll drink to that."

At 53, Towne seems relaxed, conciliatory, but nonetheless on fire with upcoming projects. He's mentally gearing up for "The Two Jakes," to be shot this spring (with Nicholson starring and directing, and Evans and Harold Schneider producing), and after that, he'll work on a screenplay for "Cast of Killers," based on the murder of the silent movie director, William Desmond Taylor, in Hollywood.

"As I look back on the films I've done," he says, "I've tended to feel, if anything, better about them than I did at the time." Even "The New Centurions," pieces of which Towne has seen recently, looked "pretty good, you know. I was surprised. I think there comes a time when you can see the picture with a perspective on it, when you don't remember the pain of doing it. That was true of 'Chinatown.' I hated that movie — which is not something I've generally said — when I first saw it. I thought, 'Jesus, it's cold and cynical and I really dislike it.' But, over a period of time, I've come to see it's really an excellent movie, and Roman did a masterful job of directing it. At the time all I could see was what wasn't there that I had hoped would be there, and I think in time you tend to see the picture as it is rather than the hopes you had for it."

Under the agreement with Warner Bros., the studio reserved a first look at "Tequila." Warner liked what it saw. Now it's distributing. Which brings one back to the hotel. A shaft of afternoon light catches Towne's salt-and-pepper hair and beard so it looks like beach scrub. The feeling is easy, L.A. easy, as he talks about the look and feel of Los Angeles in "Tequila," as captured by the cinematographer maestro, Conrad L. Hall.

"It's a bleached look during the day," Towne says. "Something between white and blue, not heavy colors. It's nonsaturated color. But at night, it's full gold shadows, redolent of the drink Tequila Sunrise."

Redolent? That's a writer talking.

LANGUAGE

Chillin' It on Campus

By Richard Bernstein

IF you think *PC* stands for *personal computer*, what do you think *non-PC* means? Anything that is not a PC? Students these days, while familiar with high technology, are using the term *PC* as an abbreviation for *politically correct*; *non-PC* for its opposite.

As always, the schools and colleges are producing a lot of slang. Take the word *happening*, which is apparently derived from the "What's happening, man?" of black street talk. Jenny Lyn Bader, a junior at Harvard University, says that it is being used to mean *chic, in vogue, approved*. Bader avers that *happening* itself, used as an adjective, is very "California." Out there, they are saying things like "He's a happening guy" or "That's a happening outfit."

Groovy, that catchword of the 1960s, has turned into its opposite. It now means *stodgy, old-fashioned, unchic*, a way, for example, of describing, with heavy sarcasm, maroon polyester suits — "Groovy!"

In the 1960s, when I was a student, we used to say *cool it* to encourage calmness when all hell breaks loose. The word is now *chill* (another usage derived from street talk), usually spoken as a command.

Chill also seems to have replaced *to stand somebody up*, or *to fail to turn up for a date*. "She chilled on me," the young man said, after waiting disconsolately for several hours. (On the other hand, the word *chillin'*, with origins in rap music, means *first rate, terrific*, as in, "The concert was chillin.'")

CONNIE C. EBLE, an associate professor of English at the University of North Carolina at Chapel Hill, who has been collecting student slang for several years has a long list of these expressions. Her favorite, she says, is "talking to Ralph on the big white phone."

Ralph, Eble explains, is onomatopoeic, mimicking the sound of regurgitation. *The big white phone* is a metaphor for the toilet bowl, and the expression means *to throw up*; "pray to the porcelain goddess" is a common alternative.

Students have a host of words to refer to other students who study a great deal or who have the sort of seriousness of purpose that, when combined with a pronounced lack of social graces, produces what used to be called "grinds" or "nerds." The new insults are *dweeb*, *geek*, *goober* and *wonk*. And *corn dog*, *goob-a-tron* and *groover*.

A variation on this theme is *granola*, which refers to someone who dresses and acts as students did in the 1960s, perhaps somebody who wears sandals and beads and who says "nerd" instead of "goober." A *buzz crusher* is someone who puts a damper on things, a kill-joy. *Bite moose* is a way of telling somebody to get lost, to go to hell.

On the subject of sex, Eble's students have a rich vocabulary describing various forms of behavior that they either indulge in, or wish they did: *To box tonsils*, for example, means to kiss passionately, as does *to play tonsil hockey*.

Sleep, on the other hand, is not something that students spend a great deal of time doing, and their words for it seem to reflect this. A *rack monster* is a bed; "to get some rack" is "to get some sleep." A *power nap* is a deep sleep induced by extreme exhaustion.

More than any other group, it would seem, students constantly use words in entirely new ways. Take *random*. When something makes no sense and you are resigned to its utter nonsensicalness, "it is random, really random, totally random." And *radical* is no longer the make-the-world-over-in-our-own-image word used ad nauseam during the '60s. *Radical* — often shortened to *rad* — means *great, wonderful, remarkable*.

In the old days, we used to say "awesome" to express an approving wonderment, while *radical*, of course, was associated with things revolutionary. *Far out*, for *astonishing* or *wondrous*, was another common term of 20 years ago that seems to have disappeared. To the '60s generation, *radical* meant pretty much the same thing as *PC*.

Still, for someone of my generation, it's difficult to think of *radical* as synonymous with *awesome*, just as *far out* is not an allusion to something a great distance away. Perhaps by giving the word *radical* its new twist, students are telling us they aren't so radical anymore. If I objected to this apparent apathy, I would probably be called a *dweeb*, maybe a *granola*. Certainly I would be told to *bite moose* — or should that just be *chill*?

Richard Bernstein is on the staff of The New York Times. William Safire is on vacation.